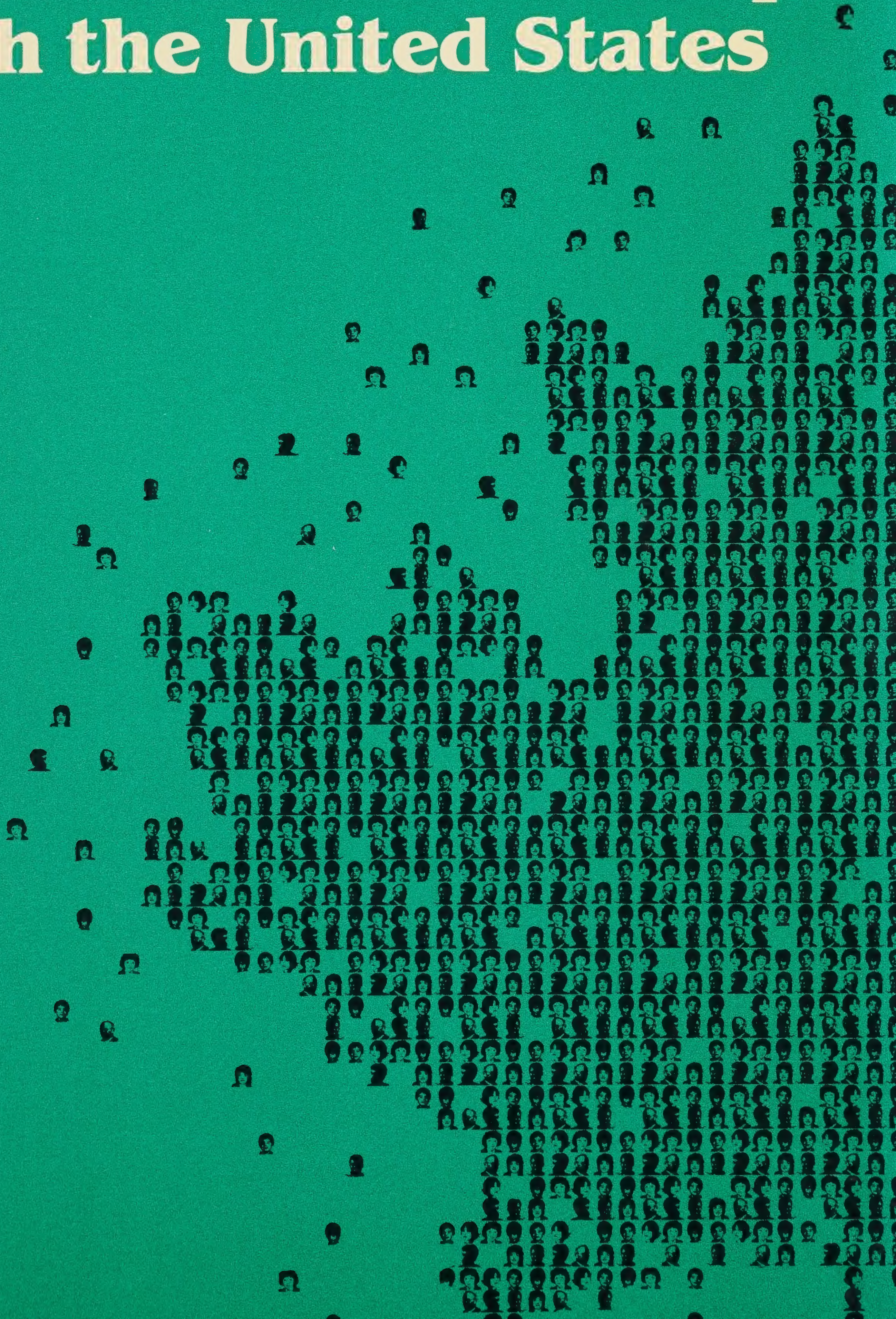
DENIS STAIRS and GILBERT R. WINHAM
Research Coordinators

The Politics of Canada's Economic Relationship with the United States



The Politics of Canada's Economic Relationship with the United States

This is Volume 29 in the series of studies commissioned as part of the research program of the Royal Commission on the Economic Union and Development Prospects for Canada.

The studies contained in this volume reflect the views of their authors and do not imply endorsement by the Chairman or Commissioners.

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CONTENTS

The Commission's research program was carried out under the joint direction of three prominent and highly respected Canadian scholars: Dr. Ivan Bernier (*Law and Constitutional Issues*), Dr. Alan Cairns (*Politics and Institutions of Government*) and Dr. David C. Smith (*Economics*).

Dr. Ivan Bernier is Dean of the Faculty of Law at Laval University. Dr. Alan Cairns is former Head of the Department of Political Science at the University of British Columbia and, prior to joining the Commission, was William Lyon Mackenzie King Visiting Professor of Canadian Studies at Harvard University. Dr. David C. Smith, former Head of the Department of Economics at Queen's University in Kingston, is now Principal of that University. When Dr. Smith assumed his new responsibilities at Queen's in September 1984, he was succeeded by Dr. Kenneth Norrie of the University of Alberta and John Sargent of the federal Department of Finance, who together acted as Co-directors of Research for the concluding phase of the Economics research program.

I am confident that the efforts of the Research Directors, research coordinators and authors whose work appears in this and other volumes, have provided the community of Canadian scholars and policy makers with a series of publications that will continue to be of value for many years to come. And I hope that the value of the research program to Canadian scholarship will be enhanced by the fact that Commission research is being made available to interested readers in both English and French.

I extend my personal thanks, and that of my fellow Commissioners, to the Research Directors and those immediately associated with them in the Commission's research program. I also want to thank the members of the many research advisory groups whose counsel contributed so substantially to this undertaking.

DONALD S. MACDONALD

INTRODUCTION

At its most general level, the Royal Commission's research program has examined how the Canadian political economy can better adapt to change. As a basis of enquiry, this question reflects our belief that the future will always take us partly by surprise. Our political, legal and economic institutions should therefore be flexible enough to accommodate surprises and yet solid enough to ensure that they help us meet our future goals. This theme of an adaptive political economy led us to explore the interdependencies between political, legal and economic systems and drew our research efforts in an interdisciplinary direction.

The sheer magnitude of the research output (more than 280 separate studies in 72 volumes) as well as its disciplinary and ideological diversity have, however, made complete integration impossible and, we have concluded, undesirable. The research output as a whole brings varying perspectives and methodologies to the study of common problems and we therefore urge readers to look beyond their particular field of interest and to explore topics across disciplines.

The three research areas — *Law and Constitutional Issues*, under Ivan Bernier; *Politics and Institutions of Government*, under Alan Cairns; and *Economics*, under David C. Smith (co-directed with Kenneth Norrie and John Sargent for the concluding phase of the research program) — were further divided into 19 sections headed by research coordinators.

The area *Law and Constitutional Issues* has been organized into five major sections headed by the research coordinators identified below.

- Law, Society and the Economy — *Ivan Bernier and Andrée Lajoie*
- The International Legal Environment — *John J. Quinn*
- The Canadian Economic Union — *Mark Krasnick*

- Harmonization of Laws in Canada — *Ronald C.C. Cuming*
- Institutional and Constitutional Arrangements — *Clare F. Beckton and A. Wayne MacKay*

Since law in its numerous manifestations is the most fundamental means of implementing state policy, it was necessary to investigate how and when law could be mobilized most effectively to address the problems raised by the Commission's mandate. Adopting a broad perspective, researchers examined Canada's legal system from the standpoint of how law evolves as a result of social, economic and political changes and how, in turn, law brings about changes in our social, economic and political conduct.

Within *Politics and Institutions of Government*, research has been organized into seven major sections.

- Canada and the International Political Economy — *Denis Stairs and Gilbert Winham*
- State and Society in the Modern Era — *Keith Banting*
- Constitutionalism, Citizenship and Society — *Alan Cairns and Cynthia Williams*
- The Politics of Canadian Federalism — *Richard Simeon*
- Representative Institutions — *Peter Aucoin*
- The Politics of Economic Policy — *G. Bruce Doern*
- Industrial Policy — *André Blais*

This area examines a number of developments which have led Canadians to question their ability to govern themselves wisely and effectively. Many of these developments are not unique to Canada and a number of comparative studies canvass and assess how others have coped with similar problems. Within the context of the Canadian heritage of parliamentary government, federalism, a mixed economy, and a bilingual and multicultural society, the research also explores ways of rearranging the relationships of power and influence among institutions to restore and enhance the fundamental democratic principles of representativeness, responsiveness and accountability.

Economics research was organized into seven major sections.

- Macroeconomics — *John Sargent*
- Federalism and the Economic Union — *Kenneth Norrie*
- Industrial Structure — *Donald G. McFetridge*
- International Trade — *John Whalley*
- Income Distribution and Economic Security — *François Vaillancourt*
- Labour Markets and Labour Relations — *Craig Riddell*
- Economic Ideas and Social Issues — *David Laidler*

Economics research examines the allocation of Canada's human and other resources, the ways in which institutions and policies affect this

allocation, and the distribution of the gains from their use. It also considers the nature of economic development, the forces that shape our regional and industrial structure, and our economic interdependence with other countries. The thrust of the research in economics is to increase our comprehension of what determines our economic potential and how instruments of economic policy may move us closer to our future goals.

One section from each of the three research areas — The Canadian Economic Union, The Politics of Canadian Federalism, and Federalism and the Economic Union — have been blended into one unified research effort. Consequently, the volumes on Federalism and the Economic Union as well as the volume on The North are the results of an interdisciplinary research effort.

We owe a special debt to the research coordinators. Not only did they organize, assemble and analyze the many research studies and combine their major findings in overviews, but they also made substantial contributions to the Final Report. We wish to thank them for their performance, often under heavy pressure.

Unfortunately, space does not permit us to thank all members of the Commission staff individually. However, we are particularly grateful to the Chairman, The Hon. Donald S. Macdonald; the Commission's Executive Director, J. Gerald Godsoe; and the Director of Policy, Alan Nymark, all of whom were closely involved with the Research Program and played key roles in the contribution of Research to the Final Report. We wish to express our appreciation to the Commission's Administrative Advisor, Harry Stewart, for his guidance and advice, and to the Director of Publishing, Ed Matheson, who managed the research publication process. A special thanks to Jamie Benidickson, Policy Coordinator and Special Assistant to the Chairman, who played a valuable liaison role between Research and the Chairman and Commissioners. We are also grateful to our office administrator, Donna Stebbing, and to our secretarial staff, Monique Carpentier, Barbara Cowtan, Tina DeLuca, Françoise Guilbault and Marilyn Sheldon.

Finally, a well deserved thank you to our closest assistants: Jacques J.M. Shore, *Law and Constitutional Issues*; Cynthia Williams and her successor Karen Jackson, *Politics and Institutions of Government*; and I. Lilla Connidis, *Economics*. We appreciate not only their individual contribution to each research area, but also their cooperative contribution to the research program and the Commission.

Ivan Bernier
Alan Cairns
David C. Smith

PREFACE

The terms of reference of the Royal Commission on the Economic Union and Development Prospects for Canada required it to report on the "long-term economic potential, prospects and challenges facing the Canadian federation and its respective regions, as well as the implications that such prospects and challenges have for Canada's economic and governmental institutions and for the management of Canada's economic affairs." With the world becoming at once more interdependent and more competitive, this was not a task that could be undertaken without reference to Canada's place in the international economy, where "significant changes" were seen to be in progress. It was therefore determined that a portion of the Commission's research program should be devoted to an analysis of Canada's situation and potential future in the world economy. Much of this work was naturally assigned to economists but, since the issues involved raised important political and institutional issues as well as economic ones, a section titled "Canada and the International Political Economy" was established to augment the work of other divisions on issues related to international trade and the legal environment.

The number of studies that could be initiated was limited by the resources available to the section, and ultimately it was decided that the reseach would concentrate, first, on the general environmental conditions within which Canada's external economic policies must be made; second, on the all-important economic relationship with the United States; and third, on various problems of substance and process in the making of Canadian foreign economic policy. With the partial exception of policies bearing on the economic problems of the Third World, which were being considered in some depth elsewhere, Canada's economic

relationships with countries other than the United States appeared not to raise political and institutional questions as important to Canada as those with the United States. Because of a limited research budget, therefore, they were not made the subject of specific studies. The papers that have resulted from this section of the Commission's research program are being published in three separate volumes, as listed here.

Volume 28: **Canada and the International Political/Economic Environment**

Denis Stairs and Gilbert R. Winham	*Canada and the International Political/Economic Environment: An Introduction*
Jock A. Finlayson	*Canadian International Economic Policy: Context, Issues and a Review of Some Recent Literature*
Michael C. Webb and Mark W. Zacher	*Canadian Export Trade in a Changing International Environment*

Volume 29: **The Politics of Canada's Economic Relationship with the United States**

Denis Stairs and Gilbert R. Winham	*The Politics of Canada's Economic Relationship with the United States: An Introduction*
J.L. Granatstein	*Free Trade Between Canada and the United States: The Issue that Will Not Go Away*
Kim R. Nossal	*Economic Nationalism and Continental Integration: Assumptions, Arguments and Advocacies*
Charles Pentland	*North American Integration and the Canadian Political System*
Jock A. Finlayson	*Canada, Congress and U.S. Foreign Economic Policy*
Gary C. Hufbauer and Andrew J. Samet	*U.S. Response to Canadian Initiatives for Sectoral Trade Liberalization, 1983–84*

Volume 30: **Selected Problems in Formulating Foreign Economic Policy**

Denis Stairs and Gilbert R. Winham	*Selected Problems in Formulating Foreign Economic Policy: An Introduction*
Gerald Wright	*Bureaucratic Politics and Canada's Foreign Economic Policy*

Robert Boardman — *The Foreign Service and the Organization of the Foreign Policy Community: Views from Canada and Abroad*

F.J. Chambers — *The Emerging Cost Structure of Canadian Firms: Some Implications for International Economic Policy*

R.B. Byers — *Canadian Defence and Defence Procurement: Implications for Economic Policy*

DENIS STAIRS AND
GILBERT R. WINHAM

ACKNOWLEDGMENTS

The editors acknowledge with gratitude the continuing interest shown by Research Director Alan Cairns in the section "Canada and the International Political Economy." The combination of his demanding standards and supportive leadership helped to raise the quality of the research papers produced in this section. Further thanks are due to the Commission staff who performed an essential role in bringing these papers to fruition, namely Karen Jackson, Research Program Advisor and Assistant to Dr.Cairns, who managed the logistics of the research station, and Françoise Guilbault, who ably discharged the varied secretarial tasks associated with the section.

In designing these studies the editors were assisted by a Research Advisory Group, which individually or collectively commented on many of the manuscripts included in the section. Their varied expertise on matters of international political economy was a valuable asset in providing ideas and criticism to individual authors. Members of the Research Advisory Group were as follows:

Professor Louis Sabourin
– École Nationale Administration Publique–GERFI

Professor Eric Kierans
Dalhousie University

Mr. Michael Hart
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Professor Rodrigue Tremblay
Université de Montréal

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University of Toronto

D.S. AND G.R.W.

The Politics of Canada's Economic Relationship with the United States: An Introduction

DENIS STAIRS AND
GILBERT R. WINHAM

Introduction

While the five studies in this volume are all concerned with aspects of Canada's economic relations with the United States, they approach the question more from the political than from the economic point of view. The first three are written with a Canadian perspective, and treat the issues involved both historically and analytically. The other two draw attention in particular to features of the American political system and to certain attitudes prevalent in the American policy community that could significantly influence the fate of current or future Canadian attempts to extend and secure the continental trading relationship.

The Canadian Perspective

Proposals designed to encourage the growth of prosperous economic relations with the United States are prominent among the issues of public policy currently being debated in Canada, and it seems probable that they will continue to be so in the foreseeable future. But they are not, of course, new to Canadian politics, nor are the controversies to which they give rise rooted solely in economic considerations. It can be argued, in fact, that one of the central ingredients of early conceptions of British North America (as it was conveniently, if insensitively, described) was the attempt to create and preserve a social and political culture in Canada different from the American, and to do so in defiance of "economic rationality" as determined by the twin forces of geography and the market. To the extent that this desire was expressed in trade policy, for example, the National Policy of 1879 represented the use of

protectionism to develop and sustain an indigenous manufacturing sector, and thereby to deter Canadians from migrating to better jobs and prospects in the United States.

Obviously not everyone agreed on what the economic consequence of yielding to the iron laws of the "dismal science" would be. Even where they did, there was still room to dispute the effects on Canada's political, social, cultural, and international life, to say nothing of the impact on the welfare of competing vested interests. Since debates on the issue were conducted in conditions of uncertainty, and since it was difficult to test potential cause-and-effect linkages by empirical means, the participants could be forgiven if they pursued their respective preferences with arguments that displayed more heat than evidence. Elections were won, and lost, on the resulting interplay of bright hopes and dark suspicions.

And so they may be again. A reminder of the substance of past debates is therefore particularly appropriate, and it can be found in J. L. Granatstein's account of the history of free trade as an issue in Canadian-American relations. There are ironies in the story. The Canadian interest in reciprocity of trade with the United States began with the repeal in Great Britain of the Corn Laws, and the abandonment of the old system of colonial preferences in favour of free trade. The United States offered a possible alternative market for Canadian commodities. Some went so far as to argue that reciprocity was essential if full annexation — which would otherwise gather irresistible support as a solution to Canada's economic problems — was to be avoided. A policy that many were later to oppose on the ground that it would lead to the political integration of the two countries was thus perceived at first as a necessary defence of Canadian sovereignty.

The Reciprocity Treaty eventually negotiated in 1854 was abrogated on American request in 1866, the year before Confederation, and the early governments of the new Dominion devoted considerable energy to the pursuit of its renewal. Even when Macdonald finally gave up the attempt and established the "National Policy" in 1879, he still found it convenient to argue that one of the advantages of his new tariff structure was that it would ultimately persuade the Americans that reciprocity was in their economic interest after all. The linkage, therefore, between the maintenance of a tariff wall and the survival of Canada as a distinctive political community came to be stressed at the governmental level much later, in response to Liberal demands in the 1880s for a new "unrestricted" reciprocity agreement. Aware from their own informal inquiries in Washington that the Americans were not interested, Macdonald's Conservatives successfully campaigned against the Liberal position in the 1891 election by equating it with a betrayal of Canada's independence and of the British connection.

When the Liberals were returned to power in 1896, they showed no immediate desire to dismantle the National Policy and, when their

feelers in Washington produced the same response as had those of Macdonald, they resorted, in effect, to a policy of British preferences in the hope that this would bring the Americans to a more receptive view. No progress was made, however, until 1911 when the government, by then under heavy pressure from western agricultural interests, announced the successful negotiation of what amounted to a renewal of reciprocity, although its scope was confined largely to natural products. Fearing that the arrangement would lead in the end to the abandonment of tariffs on manufacturers as well, business leaders in central Canada were soon in vocal pursuit, and quickly made an alliance with Borden's Conservatives. The resulting campaign, based though it may have been on vested economic interest, was conducted on higher ground, where the maintenance of the British empire, and the survival of Canada as one of its principal components, were regarded as the true stakes at issue. The Liberals — and reciprocity — were brought down.

Irrespective of these political debates, however, and in spite of the absence of a reciprocity agreement, trade between Canada and the United States by the turn of the century had begun to increase dramatically. So had American direct investment in the Canadian economy. Both processes, moreover, were accelerated by the two world wars and by the resulting strains on the economy of Britain. Under the impetus of the Great Depression, tariff reductions on selected products were negotiated between Canada and the United States in 1935 and again in 1938 but, as Granatstein observes, these "were not 'free trade' agreements, merely agreements to adjust tariffs, and as such they did not carry the emotional baggage that accompanied the 1911 reciprocity pact." It was not, therefore, a matter of "selling out Canada to the Americans," but "simply an attempt to get trade moving again and to create jobs." In such a context, the complaints of the critics "sounded like the special pleading it was."

The economic integration of the two countries proceeded apace during World War II, with the help of the Hyde Park Agreement negotiated by Roosevelt and King in 1941. A more far-reaching agreement, which would have involved the creation of a continental customs union, was nearly concluded after the war, following discussions at the level of officials in 1947–48, but ultimately it foundered on the hesitations of the prime minister, who at the end of his career, had no desire to be portrayed by the unfriendly as having sold Canada out to the United States.

The debate has recurred from time to time in more recent years, but only in the 1980s has it once again assumed a prominent place on the public agenda. In some respects, the circumstances are now very different. The British connection has lost much of its original force, even among Anglophones, as an ingredient of Canada's identity. The volume of trade with the United States, in both absolute and relative terms, has very substantially increased. Tariff walls are in any case declining as a

result of multilateral agreements negotiated through the GATT. Intracorporate trade represents a much more substantial portion of the total, particularly in the manufacturing sector, and this constitutes a new element in the balance. Non-tariff barriers, complicated by an increasingly intricate regulatory environment, have assumed a significance they did not enjoy in earlier periods. The Canadian economy is itself more diversified and complex, and the traditional disagreements among the various regions of the country on the free trade issue, while still very much in evidence, have lost their political simplicity, so that provincial governments everywhere find themselves subject to conflicting demands. Even the manner in which governments organize themselves to negotiate and administer trade policy has become vastly more complicated. All these factors, and more, suggest that lessons should be drawn from past experience only with the greatest care. But Granatstein's central conclusions are hard to contest. Proposals for free trade with the United States are bound to be controversial, and the outcome will be influenced not merely by the results of economic calculation, but by the politics of nationalism and regionalism as well.

Having said that, there is a sense, of course, in which the debate over Canada's economic relationship with the United States has been concerned in recent decades more with investment than with trade. Ironically, the rapid expansion of direct American investment in Canada during the 20th century was itself a by-product largely of Canadian tariffs, which had the effect of encouraging foreign firms to establish branch plants on Canadian soil. So pervasive did this phenomenon eventually become that it began in the 1950s to generate considerable controversy in the academic, political and public service communities, much of it reflecting anxieties not unlike those that had been expressed in the reciprocity disputes of earlier decades. The discussion came to a head in the late 1960s and early 1970s, and among the results was a series of government-initiated inquiries, together with an expansive academic literature. The issue became the principal object of a major declaratory statement of Canadian foreign policy (the so-called "third option" paper of 1972), and subsequently sparked a number of specific foreign policy initiatives, of which the most widely publicized was the creation of the "contractual link" with the European Community. It also produced major governmental enterprises in economic policy more generally, of which the establishment of the Foreign Investment Review Agency and the introduction somewhat later of the National Energy Program were among the most visible and controversial. The problem also lay at the heart of the government operations in a variety of fields not primarily regarded as "economic" in the narrow sense of the term — for example, the regulatory activity of the CRTC in the fields of radio and television broadcasting; the use of tax policy to encourage advertising in Canadian, rather than American, magazines; grants in aid of various cultural and

artistic enterprises; the provision of financial subsidies for indigenous publishers of Canadian books; and so on.

As in the case of Canada–U.S. free trade proposals, the issues in dispute arise from fear of possible secondary as well as primary effects. The primary issues, of course, would be economic in character. Will Canadian subsidiaries of foreign firms compete with their parent corporations in export markets abroad? Does a branch-plant industrial structure limit Canada's capacity to take full advantage of economies of scale? Do multinationals tend to concentrate their research and development activities in their home base, with the result that their Canadian subsidiaries engage in less product innovation than might otherwise be the case? In periods of excess capacity, do parent companies tend to "export" their unemployment to their branch plants abroad? Does dependence on foreign-owned enterprises mean that Canadian managers are deprived of opportunities to make high-level management decisions, and hence to become practised "entrepreneurs"? Does the capacity of multinational enterprises to manipulate their transfer-pricing arrangements allow them to "earn" their profits in the most favourable tax jurisdiction in which they operate, and if so, does this (a) deprive the Canadian government of potential tax revenues, and/or (b) diminish its ability to develop tax policies that are very different from those of the United States? And so on.

The secondary effects relate to political, social, and cultural considerations. It may be suggested, for example, that the American presence inhibits Canadian social policy, confines Canadian foreign policy, creates economic obstacles in the way of indigenous cultural expression, unduly influences Canadian fashions and tastes, profoundly affects attitudes to work and leisure, and so forth.

As with free trade, the cause-and-effect linkages to these potential secondary consequences are more difficult to test, and prejudice and unverified assumptions are just as common. The potential policy implications, however, may be far more varied than those of trade, since within certain limits investment can be subject to government regulation, and since in any case mechanisms can be set up to deal with presumed secondary consequences. A subsidized public broadcasting system, and the provision of grants in aid of indigenous activity in the academic, literary and performing arts would be two examples of measures taken to allay fears of a cultural take-over.

It is precisely because the concerns that have arisen, from time to time over American "penetration" of the Canadian economy have reflected political, social and cultural considerations as well as economic ones that Kim Nossal is led in his paper to associate economic nationalism with nationalism in general, and to regard it primarily as an emotional and ideological phenomenon. In its fully developed form, it is sustained not by a simple need to protect vested economic interests, but by a belief

in the primacy, independence, and autonomy of the state, and by the desire to preserve these characteristics and keep them safe. The economic nationalist argues, in essence, that this task cannot be performed unless economic factors are taken into account. "The basic premise," Nossal points out, "of economic nationalism, like that of unmodified nationalism, is that a separation between different spheres of human activity (for example, between politics, culture, or the economy) is analytically spurious at best and politically dangerous at worst." His careful analysis of economic nationalism in Canada is placed in this context. So is his treatment of the opponents of the nationalist position, whom he describes as "integrationists." His discussion clarifies the problem. It does not — it could not — solve it because the issue, as he demonstrates is "political" in the most fundamental sense, and in the end it can be resolved if at all, only by the political process. No reader of Nossal's essay, however, will dispute the fact that nationalism is still very much on the Canadian agenda, and deservedly so. It is likely to remain there.

It is worth remembering, of course, that in these various agonies Canada is not alone. The Canadian love-hate relationship with the American economy obviously has its counterparts elsewhere in the international community — the most obvious example being the fear of many Third World countries that they will lose the reality of their hard-won independence to the power of economic forces outside their own borders. On the other hand, there are contrasting cases in which economic integration by means of special trading arrangements have been consciously pursued, not from indifference to their potential political impact, but in the explicitly articulated hope that the erosion of economic autonomy would encourage the erosion as well of political sovereignty. For Canadians who are concerned about the possible secondary effects of a more integrated trading relationship with the United States, therefore, much may be learned from an analysis of the North American case against the backdrop of other examples.

The essay by Charles Pentland, drawing particularly on the experience of the European Community, is inspired by precisely this purpose. As he points out, comparisons with the European case need to be drawn with considerable care, since circumstances are in many respects very different. But the analysis nonetheless suggests that the range and subtlety of the potential linkages between Canada–U.S. economic integration and the workings of the Canadian political process may be substantially greater than is commonly assumed. In these matters, as in so many others, social science has a limited capacity for firm prediction, and Pentland is understandably cautious in considering the various possibilities. Nonetheless, this paper, like those of Granatstein and Nossal, leads unmistakably to the conclusion that the conduct of Canada's economic relationship with the United States will continue to

be a fundamental determinant of Canada's future as a political community, and that decisions with regard to it must therefore be taken with the greatest possible care.

The American Environment

Any attempt to examine Canada's economic relationship with the United States must of necessity take the American policy environment into account. As just one example, the recent proposals in 1983 by the Canadian Department of External Affairs advocating bilateral sectoral free trade agreements came at a time when the United States seemed to be reconsidering its stance toward the principle of non-discrimination (i.e., the unconditional MFN principle) of the GATT. Throughout the postwar period, the United States has viewed itself as the bulwark of a liberal multilateral trade system erected on the unconditional MFN principle of GATT Article I, but now seems less inclined to undertake a leadership role than it did previously. The result is that Washington may be more receptive now to a bilateral trade agreement with Ottawa than one would have expected from an observation of past U.S. trade policy.

One of the main concerns in designing machinery to manage economic foreign policy issues is how to deal with the U.S. system. The separation of powers feature of the U.S. government means that Canada must take account of the legislature — namely, the Congress — in the United States more than it would in most other countries. Recent years have seen the U.S. Congress assume a more important role in the making of U.S. foreign economic policy, particularly trade policy. This has generally been viewed as an unfavourable, or even ominous, trend by foreign governments because U.S. legislators tend to lack sympathy for the interests of foreign nations. If the United States were to turn sharply protectionist in trade policy, there is little question that this sentiment would be most strongly manifested within Congress. Moreover, nationalist and inward-looking policies in other areas of foreign economic policy are also likely to find their strongest supporters in Congress. All this suggests that Canada, the industrial country most dependent on the U.S. economy, should pay closer attention to the evolving role of Congress in U.S. foreign economic policy making.

The paper by Jock Finlayson examines the role of Congress in U.S. foreign economic policy making from the perspective of Canada's interests. It is clear from his account that because of Canada's extensive economic relationship with the United States, there are many ways that Congressional legislation could affect this country. Consequently, a number of Canadian leaders from the public and private sectors have proposed ways in which Canadians might make greater efforts to influence the direction of congressional actions on issues that affect their welfare. Some of these proposals have been quite interventionist, and

would call upon the Canadian government to make a strong and active effort to lobby the U.S. Congress. Finlayson is sympathetic to these proposals, but he is also careful to recognize that there are limits to the capacity of any actors, including the U.S. Executive, to determine congressional responses. What Finlayson has done is to outline general strategic concerns that should underlie Canadian attempts to deal with Congress. One of these is to develop an improved knowledge of congressional procedures, for Congress is a complicated system and effectiveness in lobbying is clearly related to an understanding of its operations. It will also be important to develop good judgment and the ability to discern the real from the apparent in terms of legislative threats to Canada. As Finlayson correctly notes, few bills introduced into Congress ever pass, so that a lobbyist must possess political acumen in order to be effective and not waste effort.

In addition to general strategy, Finlayson has analyzed and recommended operating tactics. First, since the acquisition of information is essential to working effectively on Capitol Hill, sufficient resources must be made available to monitor a large flow of data. Second, the Executive branch should not be ignored in any lobbying effort focussed on Congress, because it determines most policy vis-à-vis foreign governments, and it will often be a valuable source of support in any approach to Congress. Furthermore, if the Executive does not support a particular approach, Congress is not likely to override it in a foreign government's favour. A third point is that lobbying is often a multilateral activity in Washington, so that to be effective it is useful to engage in coalition-building with sympathetic U.S. interests. Lobbyists should therefore avoid being out in front on an issue but rather work with domestic allies who can claim to represent voters.

For those seeking to influence Congress, Canadians or others, much of the task of lobbying is a matter of winning peoples' confidence over the long term. Not every battle can be won, but some influence can be exercised on most relevant decisions. As Finlayson notes, the advantage almost always lies with the defence on Capitol Hill, that is: "It is infinitely more difficult to get something undone in Congress than to prevent its passage in the first instance." In seeking to become influential, information gathering and good judgment are at a premium, and it is these two capabilities that Finlayson effectively argues the Canadian government should maintain in Washington.

One of the main issues concerning which it will be necessary for Canada to gauge the U.S. policy environment is the negotiation of freer bilateral trade with the United States. As noted earlier, proposals for Canada–U.S. discussions on this matter were previously initiated by the Department of External Affairs, and the paper by Hufbauer and Samet examines the U.S. response to these proposals. Before commenting on this paper, it is useful to examine the circumstances in Canada in which

these proposals have come forward, as a preliminary to exploring the impact such proposals might have in Washington.

It would appear that economic relations with the United States may now be reaching a turning point for Canada, and for several reasons. First, despite the efforts of the Canadian government to diversify trade in the "third option" policy, Canadian trade has become more oriented to the U.S. market, which now accounts for approximately three-quarters of Canadian exports and imports. This situation, particularly the export concentration, creates a dependency on the U.S. market, and ultimately on the U.S. government. One concern is that if the United States took a multilateral action to restrict imports, such as it did in August, 1971, Canada's exports could be gravely damaged, while the exports of other countries might not be nearly as seriously affected. Conversely, Canada may not be in a good position to request an exemption from U.S. trade measures, since its trade is only slightly larger than that of other important U.S. customers, such as Japan. Thus Canada has reason to be worried about its continued access to the U.S. market, and reason to seek to improve, through negotiated agreement, the security of that access.

Second, for the past century Canada has had one of the more distinctive trade and industrial strategies of any OECD country, namely the National Policy of 1879. It was designed among other things to develop industry in Canada (and not incidentally to bring in U.S. capital for that purpose) and thereby to make Canada more attractive economically and so reduce the emigration of Canadians to the United States. The cornerstone of the National Policy was the tariff. Current Canadian tariffs have been progressively reduced through GATT multilateral negotiations, until today they average about 9 percent, approximately twice the average level of U.S. tariffs. The problem is that Canadian tariffs may not be any longer high enough to serve a nation-building, protectionist function, but nevertheless may be high enough to allow many Canadian producers to avoid the stimulus of world class competition. Thus Canada may need to rethink its bilateral relationship vis-à-vis the United States in light of the changes that multilateral trade policy has made on that relationship.

Third, changes are now occurring in the economy of the United States that will make that nation a more competitive partner in the North American relationship. These changes are consistent with the marketplace ideology of the Reagan Administration, but their effects may be more profound than any effects a single administration might expect to have on U.S. society. The United States is moving toward decentralization and presumably greater efficiency, deregulation and less unionization. Economic life is shifting from the old industries of the north-east to the newer, more entrepreneurial industries of the south-west. In making U.S. business more competitive, these developments have brought

increased pressure on Canadian businesses, such as transportation and telecommunication companies. The results can be seen in the comparative performances of the two economies during the recent recession. In Canada, the rate of unemployment was much worse, the decline in inflation was slower, and the rate of recovery was also much weaker.

Canada's recent proposals to negotiate trade with the United States appear to have arisen in the context of hard economic times, in keeping with a proposition advanced in the paper by Granatstein. Specifically, the Canadian proposals were to negotiate freer access to each country's markets on a sectoral basis. As the paper by Hufbauer and Samet points out, formal negotiations have not begun between the two countries, although several high-level meetings have been held and a work program has been established in four designated sectors. It is unlikely that much work will go forward until both governments take a formal decision to commence negotiations.

The research by Hufbauer and Samet was designed to examine the likely U.S. response to the Canadian initiative for bilateral sectoral trade liberalization talks. The obvious rationale for this research was that a policy of negotiation, on which the Canadian government seemed to be embarked, would likely be fruitless if the negotiating partner were either unable or unwilling to engage in the exercise. Their findings are not particularly propitious for the Canadian government.

One finding was that the costs of negotiating on a sectoral (i.e., piecemeal) basis are high in relation to the benefits to be derived, because sectors are usually not self-balancing, and equitable trade-offs between sectors are hard to achieve. Producers in those sectors designated for negotiation are likely to resist liberalization, and the limited nature of such a negotiation does not generate enough political enthusiasm or momentum to overcome this resistance. Second, the costs of sectoral negotiations are also likely high in relation to the GATT, because unlike a general free trade area which is a permissible exception to GATT requirements, sectoral agreements are prima facie illegal and would require a waiver from Canada's trading partners. Of course, Canada could disregard GATT requirements (though whether the United States would do so is another matter), but at minimum this would be an awkward break with Canada's multilateral trade policy since 1947, which has been to support the GATT.

Finally, for both the above reasons the United States would probably be more receptive to negotiating a full free trade area with Canada than to negotiating sectoral agreements. As the authors state succinctly: "We conclude that the prospects for Canadian–U.S. trade liberalization are best if the design is bold . . . [bilateral] proposals are best framed in the larger context of a free trade area." The significance of these findings is that they appear to raise the ante for the Canadian government in its search for a changed trading relationship with the United States.

Free Trade between Canada and the United States
The Issue That Will Not Go Away

J.L. GRANATSTEIN

Introduction

Canada's historians have spent much energy and devoted many pages to recounting the struggles between French- and English-speaking Canadians. Questions of schooling, military service and the Constitution have bedeviled this country since Confederation (and before), and the difficult relations between the two founding peoples have been the most important questions to face this country. There is one economic issue, however, that comes close to rivalling the linguistic and race question for both longevity and vehemence, and that is, of course, the question of free trade with the United States. Under various names — reciprocity, commercial union, unrestricted reciprocity, limited customs union, or sectoral free trade — that issue has been with Canadians for almost a century and a half, creating its own myths and tempting our political leaders or frightening them. The issue will not disappear.

Nor will the corollary issues that come in its train. In the late 1870s, the protectionist National Policy was put into place, in part at least as a substitute for a trade arrangement with the United States. The tariff wall was designed to foster Canadian manufacturing, and to encourage American firms to leap the customs border and set up plants in Canada. The issue of foreign investment, initially a positive benefit for the employment it brought, had arrived, and it too would not disappear.

This paper will trace the development of the idea of free trade. Special attention will be given to the crisis points: the reciprocity treaty of 1854 and its abrogation in 1866; the campaign for reciprocity that culminated in the 1891 election; the 1911 reciprocity agreement and the election; the impact of the Great War; the trade agreements of 1935 and 1938; the Hyde Park Agreement of 1941; the free trade discussions of 1947–8; the Auto

Pact of 1965; and the current push for some measure of free trade. The emphasis will be heaviest on the 20th century, but the earlier period cannot be ignored if only because it defined the rhetoric and set the terms of the debate that continues to this day. In each of the cases, an effort will be made to set out the tenor of the debate, define the protagonists' positions, and sketch out the terms of the agreements reached, nearly reached, or sought.

The Reciprocity Treaty of 1854

It was the repeal of the Corn Laws by the Peel government in Great Britain that began the talk of reciprocity in Canada in a serious way. The Corn Laws were the heart of the British protective system, the prop of what remained of mercantilism after the American Revolution. With the repeal, with the British shift toward free trade as a new article of faith, the British North American colonies were faced with the necessity for change. The whole economy of the Canadas had taken its form under the old colonial system, and now the preferences of the Canadian Corn Act and the timber preferences were to be removed in stages over the next three years, thus leaving Canada's chief exports to the United Kingdom exposed to competition from American products (and those from other countries, too).

How could the provinces adapt to the new situation? Some claimed that the natural advantages of the St. Lawrence River route, compared to the artificial Erie Canal to the south, would let Canadians best their rivals.[1] Others argued that if free trade was the proper course for the mother country, so too was it right for the Canadas: "If the productions of Canada are to receive no advantage over the productions of foreign countries when admitted into Britain," said William Merritt in Parliament in 1846, "the manufactures of Britain are not entitled to any advantage over the manufactures of foreign countries when admitted into Canada."[2] The legislature followed that advice in 1847, lowering the average duties on American manufactured goods from 12 to 7½ percent while raising those on British goods from 5 to 7 percent. The result was a tariff for revenue purposes only — then and for the next 70 years that was always an important reason for tariffs which largely financed the operations of government — and an olive branch to Washington.

Still the general mood was one of concern and worry. The political times were difficult under the Union, and by the late 1840s the world depression was weighing heavily on the Canadas. The St. Lawrence canal system was virtually empty, and businesses were going bankrupt at an accelerating pace; the public debt was mounting and the Canadas' credit was so poor that the province could not borrow; property values were falling everywhere. And the businessmen believed they knew the reason — Britain's abandonment of the old colonial trading system. In

the circumstances and despite strong loyalist sentiments, not unnaturally, attention turned to the United States.

In 1849, the Legislature passed an act offering reciprocal free trade to the Americans, but there was no corresponding gesture from Washington, increasingly preoccupied with sectional concerns. Then many Canadian businessmen began to consider annexation as the remedy to their economic plight. Annexation would teach Britain a lesson, deal the power of the French Canadians in the Union a fatal blow, and give the businessmen the access they wanted to the great American market. The Governor General, Lord Elgin, had noted that "annexation is invoked as the remedy for all ills imaginary or real." And Elgin added that "if England will not make the sacrifices which are absolutely necessary to put the Colonists here in as good a position commercially as the citizens of the States — in order to which free navigation and reciprocal trade with the States are indispensable . . . the end may be nearer at hand than we wot of."[3] In other words, to Elgin, reciprocity with the United States was necessary if annexation was to be prevented.

For a time it seemed that annexation might carry all before it. The idea attracted many in French Canada, always resentful of the British and the Anglo-Canadians, and it attracted radicals in Upper Canada. The Montreal *Gazette* supported the idea, and so did several other newspapers. The peak of annexationist sentiment came in October 1849 when the Montreal Annexation Association issued a manifesto and called for "friendly and peaceful" separation from Britain. The reasons were the "ruin and decay" throughout the Canadas and the need for new markets and new capital. The arguments were not new, but what was surprising were the 325 signatories to the manifesto, a list that included A.T. Galt, J.J.C. Abbott, Antoine-Aimé Dorion, and Luther Holton, all men with great futures ahead of them in Canadian politics, and most of Montreal's business elite.[4] For a brief period there was almost panic among loyalists, but the annexation fever died down quickly. The British tie remained strong among the English-speaking colonists, as did the ingrained resistance to the United States, mobocracy, and democracy.

Most important, perhaps, business began to revive in 1850, railways began to spread across the land, and new capital began to come to the Canadas. Trade on the St. Lawrence improved markedly, and harvests were good. Trade with the United States picked up too, despite the reluctance of Congress to consider reciprocity. But in the growing boom of the early 1850s, all Canadians could see that times could be even better with reciprocity, and the effort to secure it was helped markedly by the desire of the other British North American colonies, and not just Canada, for it. And Britain, still nervous about annexation sentiment, was now willing to help her colonies secure reciprocity — free exchange in natural products.

But it was not easy to secure reciprocity from the United States.

Negotiations in 1851 failed, despite an offer to the Americans of free navigation of the St. Lawrence canals and fishing rights off the Atlantic colonies. American indifference was pronounced, and it did not lift until the new British policy of protecting the Atlantic fisheries caused tensions to rise in 1852–53.[5] The possibility of war at last forced the American legislators and public to think about their northern border, and as neither side wanted a conflict the idea soon spread that a settlement might see free access for American fishermen traded for free access to the American market for colonial merchants.[6] By 1854 there was a positive demand for reciprocity in the U.S. from fishing interests, lumber buyers, Great Lakes traders, and from members of the Democratic Administration. Northern states and anti-slavery interests also wanted reciprocity, arguing that reciprocity would surely lead to annexation and that a larger Union would swamp the South with anti-slavery states.

The resulting treaty, negotiated by Elgin in May and June 1854 and ratified by Congress in August, was to run for ten years from the beginning of 1855 and could be terminated on one year's notice thereafter by either side. It provided for the reciprocal free admission of major natural products, a list that included grain, lumber, coal, livestock, meat and fish. It also offered joint access to all coastal fisheries north of the 36th parallel and gave the Americans access to the St. Lawrence canals and Canadians free navigation of Lake Michigan.[7] The treaty was generally cheered in British North America, and most loudly in Canada West, the chief beneficiary of agricultural access to the American market.[8]

The treaty did increase trade between the two countries markedly, or so contemporaries believed (see Table 2-1).[9]

The treaty also helped to create the beginnings of an integrated transportation system in North America, for it was now possible to ship wheat, harvested west of Chicago, to European markets through Canada or to send Upper Canadian flour via the Erie Canal and New York City to London. Moreover, as Canadian and American businessmen began to deal with each other more frequently other lines produced in one country began to sell in the other. The links of trade and transport were powerful ones.[10]

But the United States was startled to realize that in some years it was buying more from Canada than it was selling. The balance of payments was sometimes unfavourable and that naturally troubled those Yankee traders who thought only of the economic benefits to them of reciprocity. Moreover, the attitude of Britain during the Civil War, the use of Canadian territory by raiders from the South, and the complaints of those whose interests had been hurt by the 1854 treaty — in every trade treaty someone's interests are hurt — led the Americans to give notice of abrogation of the treaty, and reciprocity ended on March 17, 1866.[11] There would not be another trade treaty between the two North American nations until 1935.

TABLE 2-1 Levels of Trade Between Canada and the United States, 1850–63

	From U.K.	From U.S.
Imports to Canada		
1850	$ 9,631,921	$ 6,372,494
1851	12,037,993	7,935,972
1852	10,671,133	8,477,693
1853	18,489,121	11,782,147
1854	22,963,330	15,553,098
Under Reciprocity		
1855	13,303,560	20,828,677
1856	18,212,914	22,704,509
1857	17,559,025	20,224,651
1858	12,286,853	15,655,550
1859	14,767,872	17,592,265
1860	15,839,320	17,258,585
1861	17,945,570	20,206,080
1862	21,089,915	22,642,860
1863	20,176,964	18,457,683
	To U.K.	**To U.S.**
Exports From Canada		
1850	4,803,379	5,933,243
1851	6,021,411	4,917,429
1852	6,756,857	7,536,155
1853	11,465,408	10,725,455
1854	10,876,714	10,418,883
Under Reciprocity		
1855	6,738,441	20,002,291
1856	10,467,644	20,218,654
1857	11,102,045	14,762,641
1858	8,898,611	13,373,138
1859	7,973,106	13,586,917
1860	12,749,891	20,698,348
1861	18,787,592	16,158,374
1862	15,045,420	16,980,810
1863	17,401,856	20,910,533

Source: S.E. Moffett, *The Americanization of Canada* (Toronto: University of Toronto Press, 1972).

The ending of the treaty helped lead the British North American provinces to Confederation. In September 1865, the provinces had formed a Confederate Council of Trade to achieve economic union and to negotiate with the United States, but emissaries to Washington found only hostility.[12] On economic grounds, the proposal of confederation of the colonies seemed the only resort.

Curiously, the abrogation of the Reciprocity Treaty of 1854 did not hurt trade significantly. In 1865, the last full year of the treaty, exports from Canada and the Maritime colonies to the U.S. were $27.2 million; in 1867, the first full year after abrogation, exports were $25.2 million; exports from the United States to British North America were $22.6 million in 1865 and $17.4 million in 1867.[13] By 1873, the volume of imports and exports exceeded the 1865 figures, as the ease of communication and the manifold connections across the border swelled trade.

The Reciprocity Treaty, then, had a brief life but it left several legacies. First and most important was that reciprocity times were widely considered to have been good times; it did not matter that the upturn in business had begun in 1850, five years before the treaty came into force. Second, the treaty itself had been limited in scope, covering only natural products. Third, and last, the treaty had been rather reluctantly entered into by the Americans, the Canadians being the suitors, and it was cancelled by the Americans, in part at least because of resentment at British policies. There was a lesson in that.

Unrestricted Reciprocity vs. Commercial Union

The new Dominion of Canada soon tried to secure a new reciprocity treaty with the United States. Sir Charles Tupper in 1873 observed that "both Her Majesty's Government and the Government of Canada have availed themselves of every suitable opportunity, since the abrogation of the Reciprocity Treaty, to press upon the Government of the United States the desirability of a renewal of reciprocal trade relations . . . upon a broad and liberal basis."[14] In 1874, in fact, the Liberal government of Alexander Mackenzie sent George Brown to Washington to attempt to negotiate a new reciprocity treaty, and Brown gave it his all. He spent months in the American capital, talking to senators at length and trying to mobilize their support, negotiating with and through the British Embassy, and engaging in detailed discussions with the Secretary of State. He had a lever in that the Americans wanted their fishing rights in Canadian waters again, and Brown thought it might be possible to swap a concession there for a trade treaty. But although a draft treaty was worked out and President Grant seemed favourable, the agreement stalled in the Senate for lack of his explicit support and eventually died.[15] Finally Macdonald's government, back in power after the elections of 1878, turned to protection as policy. As Leader of the Opposition

that year, Macdonald had argued for a "National Policy" to foster manufacturing and to "prevent Canada from being made a sacrifice market . . . and moving (as it ought to do) in the direction of a reciprocity of tariffs with our neighbours . . . will greatly tend to produce for this country, eventually, a reciprocity of trade." The Americans, Sir John added, "will not have anything like reciprocity of trade with us unless we show them that it will be to their advantage. . . . It is only by closing our doors and by cutting them out of our markets that they will open theirs to us."[16]

Thus Canada's continuing desire for reciprocity was a major cause of Macdonald's National Policy. But there was economic nationalism in the policy too, and there had been a large strain of that in tariff policy since Galt's tariff of 1859. That tariff was ostensibly for revenue only, but on one occasion Galt admitted that "Canada has adopted the protective policy."[17] Macdonald made no bones about it twenty years later, and industries could get virtually the degree of protection they desired. The rates were high: agricultural implements, 25 percent *ad valorem*; bricks, 20 percent; railway equipment, 30 percent; iron, from 15 to 35 percent; refined sugar, 30 percent and half a cent a pound; woollen clothing, 25 percent and 10 cents per pound. Agricultural products were also covered: wheat, 15 cents per bushel; butter, 4 cents a pound; and cheese, 3 cents a pound. The average rate *ad valorem* was 28 percent.[18]

The tariff was intended to be a permanent one. As such, it forged a permanent link between manufacturing interests and the Conservatives, the party of the National Policy. It also made prices in Canada higher than they had been before and fostered the growth of "infant industries" that could not survive without protection. At the same time, the tariff boosted the Dominion's revenues — customs duties increased from $12.9 million in 1878 to $18.4 million in 1880. The National Policy seemed to be good for everyone, except for those who had to buy goods in Canada and except for the Liberals who were cut off from the support of the manufacturing interests.

Nonetheless the idea of reciprocity persisted. The times were difficult in Canada through the 1880s; population growth was slow and the best and the brightest were emigrating to the United States, the economy seemed stagnant, and Canadians looked enviously to the south, observing the great strides being made by the United States. The Canadian experiment did not seem a success, and the idea of tying the Canadian economy more closely to the American gained ground again. By the late 1880s two phrases were becoming popular: commercial union and unrestricted reciprocity.

Commercial Union (CU) was the chief topic of the day, particularly after Wilfrid Laurier became leader of the Liberal Party in 1887. CU meant a complete *zollverein*, the disappearance of all customs houses along the border, and a common tariff wall erected by Canada and the

United States against overseas countries. Duties received were to be divided between them according to an agreed formula. Many Canadians were fearful of such an arrangement, however, for it was clear that tariff policy under CU would almost certainly be set by the larger partner, and if that was the case, would not other policies be set there as well? Could Canada survive as a separate entity under CU? The Liberals, many of whom were attracted to CU, its drawbacks notwithstanding, decided instead to be cautious and to advocate Unrestricted Reciprocity (UR). UR was a modification of the customs union idea. It provided for free trade between Canada and the United States, but each government had liberty to set its own tariffs against third parties. UR therefore would preserve a measure of Canadian independence, and in particular it would allow Canada to determine its own tariff course with Great Britain.[19]

What the Liberals intended, however, was to discriminate against British goods and in favour of American. This intention was absolutely clear in the debates in the House of Commons in the 1889 session when Liberal speakers argued that Canada's interests were different from those of Great Britain, that Britain invariably looked after its own interests first, and that Canada had a right and duty to do the same. All that Canada owed England, Richard Cartwright said in a memorable phrase, was Christian forgiveness for the way the mother country had handled Canadian-American questions.[20]

The Conservatives, still in power under Macdonald's stewardship, had themselves been sending out feelers to Washington for a new reciprocity agreement, but had not got very far. The American Secretary of State, James G. Blaine, even denied that there had been any negotiation in the bluntest of terms:

> Beyond the frontier, across the river, our neighbours chose another Government, another allegiance. . . . They do exactly as they have a right to do. I neither dispute their right nor envy their situation. . . . But I am opposed, teetotally opposed, to giving the Canadians the sentimental satisfaction of waving the British flag, paying British taxes, and enjoying the actual cash remuneration of American markets. They cannot have both at the same time. If they come to us they can have what we have, but it is an absolute wrong . . . that they shall have exactly the same share of our markets and the same privileges of trade under our flag that we have. So far as I can help it, I do not mean that they shall be Canadians and Americans at the same time.[21]

Rebuffed in Washington, the Conservatives quickly reversed course. Reciprocity was virtual treason, they now claimed, and the Liberals were in favour of selling Canada to the Yankees. Blaine's inflammatory words made that clear — reciprocity only if Canada threw in its lot with the United States. Sir John A. went further. In his opening address of the election campaign on February 17, 1891 in Toronto, he accused the Liberals of having been bought with American gold. "I believe that this

election, which is a great crisis and upon which so much depends, will show to the Americans that we prize our country as much as they do," the Prime Minister said, "[and] that we would fight for our existence. . . ." Macdonald's ringing phrase rang across the lands: "A British subject I was born, and a British subject I will die."[22] The loyalty cry was an effective weapon against a party led by a French-Canadian Roman Catholic, and it worked. Macdonald led his party to victory one last time. The Grand Old Man had done it again.

But the great man was soon dead, and his successors lacked his skills. Laurier, not chastened by his 1891 defeat, stayed on as Liberal leader, and slowly began to turn his party's policy into a carbon copy of the Conservatives'. At the Liberal convention of 1893, the banners denounced protection, but Laurier's speech and the adopted resolution stressed the "requirements of revenue" and proclaimed free trade as a "goal." By 1896 and the next federal election, some of the old rhetoric was still in place, but few anticipated radical alterations in the National Policy. Certainly those businessmen who had sheltered behind the tariff were no longer frightened of Laurier.[23]

They had no reason to be. The Liberals had become as devoted to the National Policy as the Conservatives had been. But just as Macdonald could be for the National Policy and still consider reciprocity with the Americans, so too could Laurier. Feelers were sent out to Washington late in 1896 but without success. The Liberal initiative startled everyone. In the first budget of the new government on April 22, 1897 the Minister of Finance, W.S. Fielding, made an offer of reciprocity to all the world and, the minister said, Great Britain was particularly qualified. Fielding made it clear that reciprocity with the United States was still the Liberal goal, but until the Americans were prepared to negotiate, the best the government could do was adjust the tariff in a way that made it adaptable. And so the Fielding tariff did: the qualification for a preference in the Canadian market now was simply reciprocal treatment. Thus by giving Britain a preference the Laurier government was in fact exerting pressure on the United States; it was also parading its loyalty before those Canadians who still might fear "French" influence with Laurier as Prime Minister. It was a clever move.[24]

But if the British preference was intended to increase British exports to Canada to the point where they could compete with American, it was a futile gesture. Imports from the United States were substantial and growing larger still. In 1896, Canadian imports from the south were \$53 million and from the United Kingdom \$32 million. In 1901, the figures were \$107 million and \$42 million; in 1906, \$169 million and \$69 million; and in 1911, \$275 million and \$109 million. Exports from Canada to Britain and the United States told a different tale. In 1896, exports to the U.S. were \$37 million and to Britain, \$62 million; in 1901, \$67 million and \$92 million; in 1906, \$83 million and \$127 million; and in 1911, \$104

and $132 million.[25] The American market was more important to Canada as a source of imports and the British market took more of Canadian exports than did the United States. The trade surplus with Britain ordinarily went a substantial distance toward balancing the deficit with the United States; even so, Canada ran overall trade deficits ranging from just over $7 million in 1901 to $108 million in 1906 and to $214 million in 1911.[26]

One result of these deficits was a desire for foreign investment. The National Policy had been explicitly intended to encourage foreign investment in Canadian manufacturing, and to some extent it had worked. By 1890, American investment was estimated at $168 million and British investment at just over $1 billion, or 14 and 85 percent of the total respectively. By 1905 American investment in Canada was $290 million and British $1,212 million or 19 and 79 percent respectively; in 1910, the figures were $487 million and $1,958 million or 19 and 77 percent; and by 1914, the last partial year of peace, the figures were $881 million and $2,778 million or 23 and 72 percent respectively.[27] The British figures were beginning to shrink, and American investment was beginning to grow. That trend was to continue.

The 1911 Reciprocity Agreement and Election

The trade and investment statistics, with their steady and substantial increases in absolute terms, also traced the marked expansion of Canadian trade and prosperity. The Laurier years were boom years with extraordinary increases in Canadian agriculture output and in manufacturing; indeed, manufacturing increased by 6 percent a year over the period 1900–10, the sharpest growth to that time.[28]

The benefits of the great boom were not equally divided, however. While the manufacturers grew prosperous, the farmers remained dissatisfied. The prices they paid for agricultural implements were high, thanks to the protected position of the Canadian manufacturers; the prices they paid for everything were high, and the tariff was the villain with an average *ad valorem* rate of 28%.[29] In 1907 Laurier's government made some minor tariff concessions to the western farmers, but they were just a sop, not a remedy. And when the Liberal Prime Minister made a great tour of the West in 1910, he was beset with cries for free trade and for a better deal. In December, huge delegations of farmers laid siege to the Parliament Buildings, pressing their case for relief from the costs of protectionism.

By that date, in fact, negotiations with the United States for a reciprocity treaty were well advanced. On January 26, 1911, Fielding, still Laurier's Minister of Finance after 15 years, gave the news to the House of Commons and the nation:

> . . . we have arranged that there shall be a large free list. We have agreed upon a schedule containing a large number of articles which are to be reciprocally free. These are chiefly what are called natural products. . . .
>
> In another schedule we have provided a rather numerous list of items on which there shall be a common rate of duty in both countries . . . we have had to make only moderate reductions, while they, in many cases, have had to make quite large reductions.[30]

Fielding's agreement with the United States provided free entry for live animals, poultry, wheat, corn, fresh vegetables and fruit, fish, timber and sawed boards, asbestos, brass, rolled iron, cream separators, wire, fencing wire, pulp wood and a host of other items. Most were, as Fielding had said, natural products. Other duties were lowered substantially: agricultural implements were now to have a rate of 15% *ad valorem* and tractors of 20%, two items of special interest to farmers.[31] Indeed, the whole reciprocity treaty seemed designed for the agricultural community. There was now virtually free access to the great American market for agricultural products and substantial concessions on farm machinery entering Canada. It was a victory for the West, a triumph for organized farmer agitation.

Indeed, that was the way Fielding's announcement was seen by almost everyone. The Liberals had finally achieved what virtually every government had tried for since 1866, a renewal of reciprocity. How could this be opposed? the Conservatives asked themselves. Robert Borden, the party leader, was almost dumbstruck, a state that lasted until his caucus members went out to their constituencies and discovered that many were deeply concerned by Laurier's treaty and ready to "bust the damn thing." First off, Laurier liberalism was in difficulty generally in English and French Canada, an inevitable result of 15 years in office. The government was seen as weak on imperial sentiment by many in English Canada, an impression that reciprocity did nothing to dispel. In Quebec, the government was viewed as being made up of *vendus* who had sold out to English Canada and its imperial attitudes, the presence of Laurier notwithstanding. Moreover, Ontario no longer had a lieutenant of stature at Laurier's side, the province's ministers generally being junior in status or, more seriously, in ability. It was the manufacturers, though, who were most concerned by the agreement with Washington. Their reaction was surprising because the reciprocity arrangement scarcely touched their interests. Nonetheless, reciprocity in natural products was seen as the thin edge of the wedge that would eventually see the tariff protection against manufactured products removed. By 1911, Canada had become an industrialized country with substantial manufacturing centres that had grown up behind the tariff protection of the National Policy. Now Laurier was apparently proposing to breach the walls.

The first attacks on the reciprocity agreement came from disaffected Liberals. Urged on by Clifford Sifton, Laurier's onetime minister of the

interior who had left the Cabinet over the question of French-Canadian rights in the new provinces of Alberta and Saskatchewan, eighteen Toronto businessmen published a manifesto on February 20, 1911. Canada's prosperity, they argued, was owed to the National Policy and reciprocity would squander all the money invested in east-west communication lines by creating new north-south trade flows. The agreement would weaken ties with the empire. It would expose Canada to enormous difficulties if the United States withdrew at some future point, and that was a serious risk. Moreover, and this was the critical point, "to avoid such a disruption Canada would be forced to extend the scope of the agreement so as to include manufactures and other things." All in all, the Toronto Eighteen claimed, reciprocity threatened Canadian nationality "with a more serious blow than any it has heretofore met."[32]

Borden and the Conservatives were quick to take advantage of the rift in Liberal ranks. The Eighteen had included Z.A. Lash, a lawyer for the railway interests, and Lash met on March 1 with Clifford Sifton, Lloyd Harris, MP of the Massey-Harris interests, J.S. Willison, the editor of Toronto *News* and a stern critic of Laurier's imperial policies, and Robert Borden, the Tory leader. As Willison's memorandum of the meeting noted, "The four first named having fully agreed as to the course to be taken and the policy which should be pursued by a new Administration. . . . Their views were laid before the Leader of the Opposition by Mr. Sifton." In effect, Borden was asked to agree to a series of promises that included: Quebec and Roman Catholics should have no undue influence; American encroachments and blandishments should be resisted; in forming a Cabinet Borden should consult with Lash, Willison and Sir Edmund Walker of the Bank of Commerce to ensure that Liberals who opposed reciprocity received their due; and a number of men from outside Parliament should be brought into Cabinet. There were other points designed to take the civil service out of politics, to encourage trade abroad, and to develop a rational tariff, but the key point was that if Borden wanted the support of Liberal businessmen against reciprocity, he would have to consult Walker, Lash and Willison in setting up his Cabinet. Borden readily agreed, and the alliance between the manufacturers and financiers of central Canada and the Conservative party was sealed.[33]

From Borden's point of view, this bargain had several consequences. No longer would he have to worry about money. His party coffers would be full, and the dissident Liberals, through their specially created Canadian National League, poured vast sums more into anti-reciprocity propaganda. But many in Borden's caucus were unhappy about any arrangement with the hated Liberals and, while none knew of the full extent of Borden's deal, there were suspicions. On the verge of a political triumph, Borden had to fend off revolts within his party. Above all, the Conservative leader had made a quite unprecedented arrangement, in

effect giving a form of a veto over Cabinet appointments to Walker, Lash and Willison and promising to bring in key Cabinet figures from outside the House. The Conservative party, despite its leader's earlier campaigns for clean government and progressive measures, had now been turned into the virtual handmaiden of Toronto business and finance.

The business of politics, however, was still to get elected above all else, and there was no question that the Conservatives were beginning to benefit substantially from the criticisms launched by the press, the Canadian National League, and the Canadian Manufacturers' Association's creation, the Canadian Home Market Association. The CHMA and the Canadian National League worked closely together, the League distributing the CHMA's propaganda in huge quantities — 9.5 million pieces dispatched by mid-August, 1911, and 20,000 more going out each day.

What was the thrust of the anti-reciprocity campaign? One famous pamphlet, written by the journalist Arthur Hawkes, was called "An Appeal to the British-Born" and it rang all the changes, pointing out how Canada had been saved for the empire when annexation was rejected in 1849. "It was saved not because of Britain's love for Upper Canada and Lower Canada, but because of the love of men in the Canadas for Britain. They knew, deep down in their souls, that Canada possessed Britain in a far more magnificent sense than Britain possessed Canada, and that out of their tribulation rich fruits would spring. That is even more splendidly true today."[34] *The Montreal Star*, in its key election editorial, tried to draw out the differences between Canada and the United States and then urged the electors not to turn their backs on the system of government under which they had prospered. "Shall we do it? Shall we surrender just when the battle is won? Shall we let the men, who deserted us in the dark days, now come in as full-fledged 'American citizens' and take over the country they did not think worth living in . . . ? Shall we give up, too, the glorious future which beckons us — the chance that we will become the chief state in the British empire and the most powerful nation in the world? Shall we bring the sacrifices of the Fathers to naught?"[35]

For the anti-reciprocity propagandists, the issue was not the trade agreement so much as the possible implications of it. If ever Canada let down her guard, the American bogeyman would swallow her whole. What needs to be said, however, is that there were some grounds for that belief. The United States, under President Theodore Roosevelt, had used threats of the "big stick" against Canada during the Alaska Boundary dispute just a few years before, and they still rankled. More to the point, the reciprocity issue had provoked remarkably silly — if forthright — statements from American politicians. President Taft had sought an agreement with Canada in part because it promised to give the newspaper publishers cheaper newsprint, something that he hoped

would get a hostile press off his back. But when his reciprocity agreement stalled in Congress in the spring, Taft thought to ease matters by telling the American Newspaper Publishers' Association that Canada was "coming to the parting of the ways. . . . The forces which are at work in England and in Canada to separate her by a Chinese wall from the United States and to make her part of an imperial commercial band . . . by a system of preferential tariffs, will derive an impetus from the rejection of this treaty, and if we would have reciprocity . . . we must take it now or give it up forever . . . the bond uniting the dominion to the mother country is light and almost imperceptible." Taft's remarks, in context, referred to trade alone; out of context and used in Canada by the opposition to the agreement, they were devastating. So too were the remarks of Champ Clark, the Speaker-designate of the House of Representatives, who said in Congress that "I hope to see the day when the American flag will float over every square foot of the British-North American possessions clear to the North Pole. . . . "[36]

Against this the Liberals could only say that they did not seek to tie Canada irrevocably to the United States, that their devotion to empire was strong, and that the economic benefits of reciprocity were worth all risks. "Nothing more clearly shows the weakness of the case against reciprocity," said the Finance Minister, W.S.Fielding, in a pamphlet distributed in the Maritimes, "than the fact that our opponents have to resort to the device of waving the British flag and accusing the advocates of reciprocity of disloyalty. . . . The glorious flag of the empire was never intended to be used for so mean a purpose." The Toronto *Globe*, the leading Liberal newspaper in the country, quoted a Quebec Liberal's declaration — "We are all united as one under one flag, the Union Jack" — with approval, and condemned the Conservatives, the party of loyalty in English Canada, for their alliance with Henri Bourassa and the *nationalistes* in Quebec — "every one of them a traitor to British ideals," the *Globe* said.[37]

What happened was that in Quebec Laurier was under assault by Bourassa for his naval policy, for his too close relationship with England and English Canadians, and for his unwillingness to assist his compatriots. In English Canada, Laurier was denounced as a traitor to the empire, one who, because he was a *Canadien*, would sell Canada to the Americans. What made it worse was that the Liberal organization was enfeebled, the Conservatives well financed and eager. Indeed, some historians have suggested that in Ontario, at least, the Conservatives were so well prepared that they could have won an election on virtually any pretext.[38] That suggested that reciprocity was perhaps less of an issue than might have been thought.

In some ways the results confirmed that. Reciprocity had been put in place for the western farmer — but in Manitoba the Conservatives took 8 out of 10 seats, and cynics attributed that to the great influence of the

Canadian Pacific which was vehemently opposed to the agreement. In Alberta and Saskatchewan, however, the Liberals won 15 of 17 seats. But elections in 1911 (as ever after) were won in Ontario and Quebec: in Ontario, Laurier took only 13 of 86 seats; in Quebec, the Tories and *Nationalistes* took 27 of 65. The overall result was that the Conservatives had 134 seats to 87 for Laurier. Reciprocity had been defeated, and J.W. Dafoe, the pro-reciprocity editor of the *Manitoba Free Press*, was convinced that he knew why: Laurier had held office by placating various powerful interests at the expense of the general public, but "the moment he showed signs of putting real Liberal doctrine into effect, the interests combined and crushed him."[39] There was more than a little truth in that assessment.

On the other hand, it was also true that reciprocity had run up against nascent Canadian nationalism. The anti-reciprocity forces had draped themselves in the bloody shirt of loyalty to Crown and Empire, appealing to the Britishness of the electorate, but they had also talked Canada, Canada, Canada. They knew their audience well, and their appeals to anti-Americanism, then as always a corollary of Canadianism, struck a great wellspring of sentiment. Canadians, although still more fervent in their loyalty to the empire than the king, were beginning to think in nationalistic terms a half century after confederation, beginning to consider that their country had a chance to become something special. In effect, they voted, as a Canadian writing in the *Yale Review* after the election put it, to "let well enough alone!"[40]

One more point is worth noting. The Prairie farmers who had pressed so hard for free trade did not forget their defeat at the hands of the Conservatives and the Canadian Manufacturers Association. The 1911 election shook the old party system thoroughly, and the 1917 election that followed, with its Union Government and conscription issue, shook it further still. The result was that by the end of the war, the new Progressive party was in formation on the Prairies and in rural Ontario. The Progressives' issue was the tariff first and foremost, and the defeat of reciprocity in 1911 was the spur for its formation. Before long, provincial governments were tumbling, and the farmers' party was forming the second largest bloc in Ottawa. In this instance, if in no other, the reciprocity issue had major political consequences after the fact.

The Impact of the Great War — and After

The new Conservative government carried out its pledges to the manufacturing interests that had helped to elect it. Borden went outside his caucus for Cabinet members, and he made Thomas White, the vice-president of the National Trust Co. of Toronto, his minister of finance. And there was no more talk of reciprocity.

There was talk of war, and soon there was more than talk. Canada went

to war in August 1914, bound by the British declaration. Before long, contingents of Canadian troops were crossing the Atlantic, and casualty lists were being telegraphed to the press in Canada. The war changed many things in Canada; and one major change was in the way Canada traded with the United States and in the way Canadian industrial expansion was financed.

"The United States," Mackenzie King, then a defeated Liberal politician, had predicted in August 1914, "will rise out of the situation as the first power of the world. . . . The British Empire will be changed in complexion, the mother country will be crushed by the burden of the war. . . . " Few would have agreed with King, but he was right. Indeed, under the strain of total war, British resources shrank with astonishing speed. In 1914, the United Kingdom had no difficulty in helping Canada meet its war costs; by 1916 Britain was seeking assistance from Canada. Before the war, British investors had purchased between 50 and 80 percent of all private and government Canadian bond issues; by 1915 and 1916, as the war absorbed British capital, the amount invested in Canada shrank to some one-third of the total of bond issues. In effect, Canadian companies had to turn elsewhere — and where else but to New York? The Americans stepped in with a will, buying 42 percent of Canadian issues in 1915 and 65 percent in 1916.[41] That investment was significant enough; even more so was the fact that federal, provincial and municipal bonds had been put up for sale in New York. A historic transformation had begun, and it was to accelerate. In 1914, American investors held only 23 percent of the foreign capital invested in Canada; by 1918 their share had increased to 36 percent; and so enfeebled was the British economy at the end of the war that by 1920 the Americans held 44 percent — and by 1922, 50 percent.[42] Borden might have wanted to keep Canada British, but the events and costs of the war had turned Canada toward American investors.

The war also affected trade and war production. After some unhappy experiments in organizing war production for Britain in Canada, the Borden government turned to Sir Joseph Flavelle and the Imperial Munitions Board. The IMB leased factories and gave out contracts, and it helped speed the industrialization of the Canadian economy, while employing vast numbers of men and women and giving manufacturers large profits. But the costs of the industrial war effort soon were beginning to strain the British capacity to pay, even though the bulk of Canadian war production was intended for the British forces. The British had greatly increased their imports from the United States during the war, and they were running out of American exchange. So too was Canada; but the British, absorbed in their own far greater difficulties, had scant sympathy for Canadian concerns. From 1915 on, the British argument was that Canada should do more, that Canada had to do more. Finance Minister White was reluctant, but by 1917 he had to yield. The

British put the case very starkly: either Canada must do more to cover the immense costs of the Imperial Munitions Board's operations in Canada or else the Board's operations would have to be cut back sharply. There was to be an election in 1917, and massive unemployment in war industries was not likely to be viewed sympathetically by an electorate that was to be exhorted to vote for conscription to help win the war. In the circumstances, White agreed to put up $25 million a month for the IMB's expenses. Even so, British orders were beginning to slow, and Sir Joseph Flavelle, a Canadian much concerned to keep the factories running at full blast, turned to the United States.

The Americans had come into the war in April 1917, and the great industrial machine of the United States was being geared for war. There was some chaos and confusion, and there were some shortages. Surely, Flavelle suggested, Canada could fill the gap? Some American orders could keep the plants working and fill the vacuum left by shrinking British orders. And so it was. By the end of 1917 with the government's full support, Flavelle's IMB had struck an arrangement with the Ordnance Department of the U.S. War Department. Soon orders began to flow north, amounting to $56 million worth by May 1918. Expectations for the months ahead were higher still.[43]

But there were difficulties. American firms began to complain about orders going to Canada, and Prime Minister Borden went to Washington to talk to President Woodrow Wilson about the situation. On his return, he wrote that the President had "expressed the view that the resources of the two countries should be pooled in the most effective cooperation and that the boundary line had little or no significance in considering or dealing with these vital questions." For Borden, faced with the difficulties of managing a war economy, that made sense too. The reciprocity campaign of 1911, the denunciations of American influence, were forgotten under the lash of wartime necessity.

Sir Thomas White also had to eat his ration of crow. When the Americans entered the war, they put controls on loans to the Allies. White went to Washington to see Treasury Secretary W.G.McAdoo and to argue that Canada should be exempt from those measures. American dollars would let Canada keep up its orders from the United States, he said, and with its great strength and resources, the United States could readily afford this exemption for the country with which it shared a continent. McAdoo was willing, but it was significant that White did not want a loan from the American government, preferring instead to borrow on the private New York market: "We shall have to pay a fairly stiff rate of interest," he said, "but I believe I would rather do this than borrow directly from the Government. . . . In other words I would rather we should 'hoe our own road.' " Some caution about dealing with Washington still remained.[44]

But not much. The Americans put controls on coal and fuels, and

Canada was forced to respond by creating a Fuel Administration and by lobbying in Washington for a share of coal production. A Canadian war mission went to Washington in the fall to argue that Canada was entitled to a share of steel production too. In effect, Canada was forced by the war to conduct herself much like any regional lobby group in wartime Washington. And the arguments used were twofold — Canada was economically dependent on the United States, and the country had made a large and valuable contribution to the war. That was all true, and it usually worked to Canadian advantage. Still, it was curious to see headlines in the *Financial Post* in late 1917 that said, "Canada's Prosperity to Depend on Close Cooperation in Aims and Objects with the United States."[45]

So it seemed. After the war American investment continued to come into Canada. In 1918, U.S. investment amounted to $1 billion, but by 1930 it had reached $4 billion. By comparison, British investment which had been $2 billion in 1914 dropped in absolute numbers and, in fact, would not reach that sum again until 1957.[46] The Great War had made the United States the greatest power in the world, just as Mackenzie King had predicted, and it had crushed the United Kingdom. For Canada that changed the equation.

The Trade Agreements of 1935 and 1938

Attitudes to tariffs had not changed, however, in either the United States or Canada. Although the Progressive Party was calling for a new National Policy that recognized the benefits that could accrue to agriculturalists through low tariffs, the Borden government and its successor, the Meighen government, remained wedded to the old National Policy of protection. That attitude cost Arthur Meighen the election of 1921, and it brought Mackenzie King to power. King's inclinations were toward lower tariffs, but many of his Ontario and Quebec supporters took a different view, and with the Progressives sitting as a third party in the minority House of Commons he could do little.

The Americans did not help. In May 1921 the Administration of President Harding, very responsive to protectionist pressures, pushed through an Emergency Tariff Act, and the next year the Fordney-McCumber tariff raised the protective wall around the United States.[47] That weakened any desire in Canada to hold out tariff concessions to the United States.

What was striking in the circumstances was that Canadian exports to the United States remained as high as they did in the face of the Fordney-McCumber wall. In 1920, exports were $581.4 million, the highest level ever. Over the course of the 1920s, exports dropped, but in every year they were substantially higher than in the prewar and war years, the lowest point being $334.9 million in 1921 and the highest being $515.3

million in 1929. Imports from the United States followed a roughly similar pattern, the peak being $921.2 million in 1920 and the low point being $509.0 million in 1922.[48]

But there were more American tariffs to come even before the Depression began in the fall of 1929. The Smoot-Hawley tariff erected the highest protective barriers ever, and Congressman Willis Hawley said bluntly that "we alone have a right to say what shall happen in this market and the conditions on which outsiders may enter in trade."[49] So the Americans did, and the result was entirely predictable. Trade plunged, the effect of the tariff adding to the impact of the slowdown in economic activity. Writing in *The Nation* in 1931, Alex Skelton, later a senior civil servant in Ottawa, tabulated the effect (see Table 2-2). "There are," Skelton wrote, "few more striking examples of the time-worn fallacies of protectionist argument."[50]

In the circumstances, the Canadian response was inevitable. Although there were "feelers" from President Hoover and some indication that he would exempt Canada from the harshest of the agricultural tariffs in return for a pledge to develop the St. Lawrence seaway, the Mackenzie King government, with an election in the near future, could not accept that type of near-blackmail. The Canadian Minister in Washington, Vincent Massey, told the Prime Minister that the Hoover proposal would be "interpreted in Canada as an effort . . . to force us into active cooperation on the St. Lawrence plan . . . and would lead to a serious revulsion of feeling against the United States." King agreed, and he told Parliament that he could "conceive of no greater misfortune" than the linking of the two issues. Soon afterwards, the King government increased tariffs on a large number of items imported from the United States and, to make the retaliatory nature of that action all the more obvious, lowered duties on 270 items imported from the empire and 98 items imported from nations to which Canada had accorded most-favoured-nation status. Overall, the average *ad valorem* ratio was 26 percent as compared to 37 percent in the United States. The new result, as the American legation estimated, was to penalize "American trade totalling $175,000,000, the iron and steel industry along with fruit and

TABLE 2-2 Exports from Canada to United States of Farm Products, and U.S. Tariff Rates

	Export Value		Tariff Rates	
Product	**July 1920–June 1921**	**July 1930–June 1931**	**1921**	**1931**
Cattle	$ 21,240,000	$ 764,000	free	2.5–3¢/lb.
Sheep	1,676,000	244	free	$3/head
Wheat	101,997,000	6,580,000	free	42¢/bu.
Cream	2,087,000	1,348,800	free	56.6¢/gal.
Wool	2,227,000	275,000	free	24–37¢/lb.

vegetable farmers to be hurt the most."[51] In effect, King was trying to divert trade from the United States to Britain.

But if Liberals expected the tariff changes to help their re-election, they had misjudged. The Conservatives under Richard B. Bennett swept into power in October 1930, their ultra-protectionist rhetoric and their promises to blast their way into markets sounding better to the voters than Mackenzie King's more platitudinous and milder verbiage.

Bennett inherited the Depression at its nadir. Trade plummeted. At the worst, exports to the United States were below the prewar figures; so too were imports. The fall-off was very substantial. Imports of $893.5 million in 1929 were reduced to $393.7 million in 1931, $217.2 million in 1933; exports fell from $515.3 million in 1929 to $249.8 million in 1931 and $172.9 million in 1933.[52] Those collapsing figures represented thousands of Canadians — and Americans — out of work.

Bennett's answer was to raise tariffs — to 30% on the average in 1933 — and to seek to widen the benefits from imperial preferences. At the Ottawa Conference of 1932, a number of trade arrangements were thrashed out. The results were mixed. Canadian exports to the United Kingdom rose from $179 million in 1932 to $304 million in 1935 while imports from Britain increased from $93.5 million in 1932 to $116.6 million.[53] There was no doubt that Canada was the chief beneficiary of the Ottawa pacts, but the increases in trade scarcely made up for the American losses. Worse yet, the imperial system put in place at Ottawa seemed to the Americans to be a deliberate challenge.

But there were changes in store in the United States. The Roosevelt Administration, in office since 1933, and particularly its Secretary of State, Cordell Hull, looked on low tariffs as a positive good and on increased trade as a way to world peace. When Bennett and Roosevelt met in 1933 they agreed "to begin a search for means to increase the exchange of commodities between our two countries. . . . " The search had begun but the process was slow, the delays all being on the American side. By early 1935, W.D. Herridge, the minister in Washington, was reporting that the American negotiators were hard at work laying out their position. None doubted that the Americans wanted to get most-favoured-nation status for their exports to Canada; but the two countries' teams did not meet until late August 1935 to begin detailed bargaining.[54]

By this time, Canada had a group of tariff specialists. Dana Wilgress, the head of the Department of Trade and Commerce's commercial intelligence service, Hector McKinnon, the Commissioner of Tariff, and Norman Robertson, a counsellor in the Department of External Affairs, were all experts, well versed in the tariff schedule, knowledgeable about Canadian industry and agriculture, and skilled at negotiation. These men would dominate Canadian trade policy into the 1950s and beyond.

The Americans, as expected, pressed for most favoured nation status

and for reduction below that level on a number of items. In return, they offered Canada most-favoured-nation status, guarantees that newsprint, wood pulp and a few other items would stay on the free list, and substantial reductions in duty on such items as whisky, cattle, cheese and apples. They refused concessions on codfish, milk or cream and potatoes, all items of great import to the Canadians. The negotiations stalled by the end of August, and they were not started again until after the election of 1935 had returned Mackenzie King to power.

King was eager to resume negotiations, so eager in fact that a few days after the election he called on the American minister at home. "He made it plain," the minister reported to Washington, "that there were two roads open to Canada, but that he wanted to choose 'the American road' if we made it possible for him to do so." King then met with the trade experts and with his ministers concerned with the subject and, as he wrote, "I got the impression that it was going to be possible for us to effect an agreement."[55] The experts were sent back to Washington at the beginning of November, did their work at a "terrific pace," and by November 8 the draft agreement was on President Roosevelt's desk. Mackenzie King was there soon after, and in his discussions with the President, he secured additional concessions on lumber, cattle, cream and potatoes. The agreement, the first trade pact between the two countries since 1854, was signed on November 15.

The two nations exchanged most-favoured-nation status, and the Americans reduced their rates by 20 to 50 percent on 63 items, including lumber, cattle, fish, cheese, cream and apples, and they undertook to keep 21 items on the free list. The Canadians extended their entire intermediate tariff to American products, a reduction of 2.5 to 5 percent on most items. In sum, the agreement rolled the situation almost back to where it had been in 1920, before the Fordney-McCumber tariff and before King's retaliatory measures.[56] It was a major achievement for the Canadian trade experts and for Mackenzie King, who had pushed the pace of negotiation in a most uncharacteristic way. The results showed fairly quickly. Imports from the United States rose to $490.5 million in 1937 from $312.4 million in 1935; exports to the United States rose to $372.2 million from $273.1 million two years earlier.[57]

Neither the United States nor Canada was satisfied that the 1935 agreement went as far as it could. Robertson noted that the preamble declared the agreement to be "a *first step* toward the lowering of barriers impeding trade between the countries." Its scope had been limited by the margins of preference bound in favour of empire countries and by the fact that the President could only cut tariffs by a maximum of 50 percent, thanks to the U.S. Trade Agreement Act. Moreover, Robertson said, political conditions had prevented any concession on grains and fresh codfish.

It was the imperial preferences that complicated matters. As

Robertson put it, "Our own tariff on American cheese is 7 cents a pound and we are obligated to maintain a margin of preference in favour of Australia of 6 cents a pound over foreign cheese so that we could only reduce the duty on American cheese to 6 cents a pound, and then on condition that Australian and New Zealand cheese entered free."[58] Thus the process was interlocked, complex, and very political. If Canada wanted to encourage trade with the United States, it had to negotiate with Britain and other empire countries at the same time. And always there was the fact that to allow the importation of American steel, for example, caused difficulties in the Maritimes and in Hamilton. There was also the danger that when Britain and the United States met to talk trade, they might try to ease their differences by asking Canada to make concessions. That in fact came to pass.

It took substantial efforts to get the United States to the table with Canada again. The British-American negotiations of 1937 had produced a request that Canada abandon some of its preferences in the British market, but the Canadians simply refused to agree unless there were simultaneous Canadian-American talks. The Americans were reluctant, but in the end they agreed. And Norman Robertson of the Department of External Affairs set out the basic outline of Canadian commercial policy in a memorandum. The aim "is a determination to liberalize the system of imperial preference by insisting that freer trade within the Empire shall be a stride toward and not a flight from freer trade with the world. Our stake in world trade and the peculiar degree of dependence of our industries on export markets have identified Canada's real national interest with the revival and liberation of international trade. At this particular juncture of affairs," he continued, "the most effective single agency operating in the direction in which we want to go is the United States Trade Agreement policy. . . . We have, therefore, every interest in the maintenance of what are now the main lines of American commercial policy. . . . "[59] Robertson was saying in effect that Canada and the United States had the same interests in trade questions, that both wanted more trade and lower tariffs, and that imperial preferences were an impediment for both countries. That was an important memorandum because it made those points crystal clear and because it was written by a man whose influence on trade policy extended into the mid-1960s.

Canada's negotiations with the United States, conducted in parallel with the British-American talks, began in October 1937 and lasted for more than a year. Each and every commodity required a separate negotiation with the Americans and the British and often the Australians, South Africans or New Zealanders. The process was infuriatingly slow and complicated. For example, Canada had told the Americans that it was willing to give up the preference Canadian wheat enjoyed in Britain if satisfactory concessions were made for its wheat entering the United States. The difficulty was that although the United States was usually a

large exporter of wheat and in ordinary years there were no or small imports of wheat from Canada, nonetheless there were political considerations at play. The Canadians rejoined by threatening to insist that the preference in the United Kingdom stand, a move that led the Americans to offer reductions on bran and other feeds. That suggestion was good but not good enough, and the wheat question remained undecided while other items were negotiated.

The Americans were easier to deal with than the empire countries. As Robertson wrote a friend, "Triangular trade negotiations — with Australia, South Africa & the Colonial Empire each off at its own peculiar tangent are dreadfully difficult & rather discouraging. I was the last Imperialist in the Dept. of External Affairs — and now I've gone too. You may never have had the 'language difficulty' but I can get on with the Americans a damn sight more easily than with the the English & the Australians. . . . Our direct negotiations with the U.S. are the least of our worries right now," he said. "We can cope with them but not with God's Englishmen and the inescapable moral ascendancy over us lesser breeds."[60]

Nonetheless the agreement was finally ready for signature on November 17. For Canada, the agreement required the abandonment of preferences in Britain on wheat, pears, honey, salmon and other items; the British in turn gave up preferences in Canada on a range of manufactured goods. In its pact with the United States, Canada gained easier access to the American market for 129 of its products; and where there had been quotas in the 1935 agreement, the 1938 pact either removed or substantially increased them. The Americans for their part won easier entry into Canada for a variety of manufactured products, so much so in fact that the retired Conservative leader R.B. Bennett denounced the agreement and the Canadian Manufacturers' Association objected vehemently as did every other interest that had lost protection. Even so, the press and public response was highly favourable. Greater trade was a good thing in the Depression years, and the public could see, even if the CMA could not, that tariffs inhibited trade.

Moreover the Depression trade agreements had one virtue that the 1911 agreement had not. They were not "free trade" agreements, but merely agreements to adjust tariffs, and as such they did not carry the emotional baggage that accompanied the 1911 reciprocity pact. It was not selling out Canada to the Americans to lower tariffs; it was simply an attempt to get trade moving again and to create jobs. As such, the critics were disarmed; their complaints sounded like the special pleading it was.

The impact of the agreements, particularly in the 1938 pact, is difficult to measure precisely. The average Canadian *ad valorem* ratio was now 24 percent, roughly at the level in force from 1912 to 1921.[61] However, the war that began in September 1939, less than a year after the pact's signature in Washington, altered the normal trade flows substantially.

What the treaty of 1938 did accomplish was to create much trust between Canadian and American politicians and officials. Both sides already knew that their ultimate trade goals were similar; when the war began, those shared perceptions would prove very helpful.

The Hyde Park Agreement of 1941

World War II changed many things. The British and French defeats in the spring of 1940 forced Canada to move closer to the United States. In terms of defence, this led inevitably to the Ogdensburg Agreement and to the creation of the Permanent Joint Board on Defence. In economic terms, Canada became very important to the United States, which was then absorbed with hemispheric planning on the assumption that Europe was lost. Bruce Hutchison, a Canadian newspaperman with good connections in Washington, reported that he found planners there operating on the assumption that Canada's "economy would be merged with that of the U.S. . . ."[62] But Britain hung on, and soon the Americans were pouring lend-lease aid to it.

Lend-lease was a war-winning economic package, a device to let the British get what they needed from Washington without the necessity of paying for it — just then. Some of Britain's holdings in the United States were sold, and there were promises made that imperial preferences would be looked at very closely once victory came. But what of Canada?

The Canadian government was in severe economic difficulties. The war had greatly increased imports from the United States, as war production demanded components, metals and materials that could come only from south of the border. As a result, Canada's trade imbalance was increasing, and Canada could not balance its books with its surplus in Britain because sterling was no longer convertible. In effect, Canada was building huge sterling balances in London while running out of American exchange. To meet this problem, the government undertook a series of measures. Foreign exchange controls had been slapped into place in September 1939 and the dollar pegged at 90 cents; in the spring and fall of 1940 additional measures were taken to end dollar exchange almost completely for Canadian travellers to the south. In December 1940, the War Exchange Conservation Act prohibited imports of many products from outside the sterling bloc, a measure directed at the United States. Duties were cut on British exports to Canada while excise taxes were levied on products with substantial American components, such as automobiles. These measures were expected to save $70 million in American exchange, but that seemed just a drop in the bucket; and furthermore, the Americans were upset at the unilateral Canadian actions.

One option was to sell off Canadian investments in the United States. Estimates of these ranged from $275 million to $1 billion, but the Depart-

ment of Finance was very reluctant to proceed in that way. The investments were a cushion that protected Canada from some of the strains posed by the nation's heavy foreign indebtedness — American investment in Canada in 1939 was $4.1 billion or 60 percent of the total foreign investment in Canada,[63] and there were certain to be difficult political problems if the government forced investors to sell out. Another option was to borrow in the United States, but Canadian officials thought this a disastrous course that would lead to "a future of making heavy interest payments to the United States year after year in perpetuity or, alternatively, having a war debt controversy."[64]

Lend-lease seemed a way to resolve Canadian problems. Or did it? In fact, lend-lease initially increased them. Britain could take lend-lease because it was separated by an ocean from the United States; Canada, however, was not and was extremely reluctant to do so. But if Britain could get goods free from the United States, why should it pay Canada to produce them? The British made no bones about their intentions, and Canada had to find some way of getting whatever benefits were available from what Churchill called the "most unsordid act" while at the same time avoiding sacrifices such as a forced sell-off of Canadian investments in the United States or long-term indebtedness.

The answer was found at Hyde Park, N.Y. on "a grand Sunday" in April. Roosevelt and King met and talked and agreed to a simple declaration that resolved most of Canada's problems. The initial Canadian idea had been to have the Americans accept Canadian-produced goods for lend-lease, with the United States paying the costs. Roosevelt could not accept that — "it might be going a little too far" — but he could agree that the components Canada had to import from the United States to put into munitions then sent to England could be charged to the British lend-lease account. At a stroke, his agreement eased Canada's foreign exchange problems. There was more. The United States agreed to buy some $200 to $300 million in defence articles from Canada in the coming year, purchases that "would materially assist Canada in meeting part of the cost of Canadian defence purchases in the United States."

It was a triumph for King. C.D. Howe, the Minister of Munitions and Supply, was delighted and told King he was "the world's best negotiator". Perhaps it was true. King had resolved the Canadian financial difficulties, and without cost — or without short-term cost. The Hyde Park agreement laid the foundation for economic cooperation between the two North American states during the war, and King later told Parliament that the declaration "will have a permanent significance in the relations between Canada and the United States. It involves nothing less than a common plan for the economic defence of the western hemisphere."[65] So it did; but since the agreement effectively integrated the two economies, it made an independent Canadian course ever more unlikely.

How possible had independence ever been? The war years did nothing to make Canadian economic independence more likely. American investment continued to increase. By 1945, it was $5 billion or 70 percent of the total, while British investments fell from $2.4 billion in 1939 to $1.7 billion in 1945 or 25 percent of the total foreign investment in Canada. And trade with the United States rose spectacularly during the war. Exports increased from $389 million in 1939 to $1,227 million in 1945, while imports rose from $496 million to $1,202 million over the same period.[66] British trade increased as well (although imports from Britain scarcely rose at all), but there was little economic advantage for Canada in exports that could be paid for only in inconvertible pounds sterling. The necessity of war justified that inconvenience.

What happened was that the war speeded up long-standing processes. The British market was increasingly less important to Canada and the American more so. British investment counted for less and less, and American for more. New York, not London, had become the financial centre for Canada. The political changes that accompanied this financial shift were just as sharp. Canada was still a Commonwealth nation, and its men and women overseas dressed the same as their Commonwealth cousins and fought under British overall direction, if under Canadian command. But the war had made clear to almost everyone that Canada and the United States had more in common with each other than with any other country. Two Canadian officials who had spent much of the war in Washington summed up the change when they wrote in September 1945 of the cooperation between the two countries:

> There has been the open exchange of confidence . . . the warm welcome, the freedom from formality, the plain speaking, and the all-pervading friendship. . . . Cooperation was, of course, a sensible course to follow. It stood on its own merits. However, common sense is not always able to prevail over sovereignty, and self-interest, and special national interests. That the course was followed . . . is due in part to the friendly disposition that existed, attributable no doubt to our common background of language and culture, and to the close trade and industrial relationship: in part it is due to the fact that our approach to problems is similar.[67]

Canadians and Americans were almost the same.

The Free Trade Negotiations of 1947–48

What form would postwar trade take? The Canadian politicians and officials knew what they wanted. In 1943, for example, Norman Robertson, the Under-Secretary of State for External Affairs since 1941, wrote to the Prime Minister to suggest Canada support a British initiative for early discussions. "Their approach, on the basis of multilateral Convention of Commerce providing for tariff reductions and removal of other barriers to the exchange of goods, is the only really

sound and comprehensive method of securing satisfactory conditions of trade and perhaps, in the long run, of political security."[68] The future, Robertson said, lay in multilateralism as the way for Canada to gain access to United States and world markets. What that meant was that each nation subscribing to the Convention of Commerce would agree to a progressive reduction in all tariffs or in certain categories of tariffs to a maximum of, say, 70 percent. That step could be supplemented by bilateral arrangements, but the sticking point for Robertson was that the Americans had to lower their tariffs. The imperial preferences could be abandoned.

These high hopes were fated to go a-glimmering. There were discussions through the remainder of the war and into the peace, but the pace was very slow. Robertson was discouraged: "My feeling," he told Mackenzie King, "has been that we had a real opportunity immediately after the end of the war and during the first phase of reconversion for drastic and relatively painless tariff revision. The longer this operation is postponed the more difficult it will be to carry out."[69] Even so, by late 1947, the General Agreement on Tariffs and Trade, a multilateral convention, was in place, and the GATT did lower tariffs generally, although not nearly as much as Robertson and the Canadians had hoped.

By the time the GATT was on the scene, Canada was enmeshed in new economic difficulties. After the war, the Canadian government had embarked on a bold and generous plan to help its allies and to cushion the shock of peacetime reconversion at home. Huge loans were made to Britain, France and the Low Countries in a deliberate attempt to rebuild prewar markets, to help the devastated countries of Europe to restore their economies, and to keep Canadians working. In all, about $2 billion were devoted to this, with $1.25 billion going to Britain, a sum fully one-third the size of that loaned by the United States. There were some grumblings about the British loan in Quebec, but most Canadians seemed to agree with the Leader of the Opposition, John Bracken, that it was "essential to the preservation of the Canadian economy as we see it today. Ours is an export economy; we are more than any other country dependent upon foreign nations for a market for our products."[70]

There were, however, some difficulties. Britain had not made sterling convertible at war's end and, exactly as during the war, Canada's trade surplus with Britain was not sufficient to cover the trade deficit with the United States. The foreign loans compounded the problem. So too did the great rush by Canadians to buy luxury goods from the United States. During 1946 the Canadian deficit with the United States was $603 million all told, with $430 million as the deficit on merchandise trade. That deficit quickly ate into the Canadian holdings of American exchange. In other words Canada, like the rest of the postwar world, was running short of American dollars, the scarcest commodity of all.

The Marshall Plan, proposed by Secretary of State George Marshall in

a Harvard convocation address on June 5, 1947, seemed one way the United States could help ease this difficulty. If America could give the European countries the goods they needed to rebuild, the dollar shortage in Europe might be overcome and reconstruction speeded. But how could this scheme help Canada? During the war Roosevelt had thought it was going too far for Canadian goods to be sent to Britain under lend-lease and to be paid for by the United States. But in 1947 that was precisely what the Canadians wanted under the Marshall Plan. Their wishes seemed no more likely to be realized than in 1941, for Congress was, as always and properly so, concerned with the needs of American farmers and producers.

By the fall of 1947 the Canadian problem had become critical. The exchange fund was running dry and drastic measures were required. At a meeting between Canadian and American officials in Washington from October 28 to 31, the Canadians laid out two alternative solutions to their exchange difficulties. The need, as Clifford Clark, the Deputy Minister of Finance, said, was "to save between $400 and 500 million in exchange." To do this Canada had two plans. Plan A was drastic, discriminatory, and long term:

Plan A

1. A loan from the Export-Import Bank of $350 million;
2. Rationing of pleasure travel which might save $30 to $40 million;
3. Import restrictions which might save a gross of about $446 million and a net of about $300 million. Every identifiable consumer item from the United States would be completely banned, except that citrus fruits, prunes, cabbages, carrots and textiles would be put under quotas and reduced by one-third to one-half. Capital goods would also be stringently restricted. The reason for the difference between the gross and net savings is of course that Canadian industry would have to import additional capital goods in order to manufacture the consumer goods in Canada;
4. Diversion of exports which might net $50 million. . . .

Plan A simply appalled the Americans; it would be "difficult to get out from under and far more difficult for us to defend in the U.S.," they said. Plan B was marginally more palatable:

Plan B

1. A loan of $500 million from the Export-Import Bank.
2. Rationing of pleasure travel which might save $30 to $40 million.
3. Non-discriminatory import restrictions which might save a net of $175 million. These restrictions would apply to the commodities of all countries, although by selection the restrictions would hit chiefly goods from the United States. . . . Every country would have its quota. . . .

4. Long-term measures. These measures would include diversion of Canadian exports perhaps under a trade treaty whereby the U.S. tariff was reduced, and participation of Canada in the Marshall Plan. In the latter connection, Canada hopes that the U.S. may be able to place some of the procurement for the Plan in Canada or make U.S. dollars available in the U.K. or Western Europe for the purchase of commodities in Canada.[71]

Plan B did not please the Americans, but they indicated that they expected to be able to give Canada a positive answer on Marshall Plan purchases by November 15. They said they were "very receptive" to discussing a new trade treaty that would go beyond the GATT, although Congress was certain to be difficult. But the loan from the Export-Import Bank was troublesome, and the Americans refused to budge from opposition for two weeks. Only with great difficulty did Canada secure a standby credit of $300 million from the Bank and a promise of assistance in borrowing up to $200 million more on the private New York money market.

The cabinet accepted that package on November 13 and announced the dollar-saving restrictions on November 17. Ironically, the package was made public the same day that Canada accepted the GATT agreement with its promise of lower tariffs and trade expansion.[72]

The package worked. With substantial difficulty, Canada secured a place in the Marshall Plan. Offshore purchases were permitted by Congress, and Canada benefitted to the tune of a billion dollars by 1950. That measure went a long distance toward easing the dollar shortage and to keeping up trade. And the restrictions worked so well that they were lifted far faster than any had expected.

Only the trade discussions led nowhere, although for a time they promised a new reciprocity arrangement of the widest possible scope. The Canadian intention, as John Deutsch, Director of the International Economic Relations Division of the Department of Finance, wrote to a friend, "is to try to work out further tariff cuts, particularly in the manufactured goods field, which would make possible a better balance in the enormous one-way trade associated with our branch plants."[73] Deutsch and Hector McKinnon, chairman of the Canadian Tariff Board, initially met with representatives from the State Department in late October 1947 to raise the idea. McKinnon had said that he and Deutsch were authorized "to explore the possibility of concluding a comprehensive agreement involving, wherever possible, the complete elimination of duties." According to the American summary of the meeting, McKinnon had said that:

> . . . the Canadian Government would be willing to enter into an agreement even if it necessitated a major readjustment and reorientation of Canada's international economic relations. They feel that Canada must either integrate her economy more closely with that of the United States or be forced

> into discriminatory restrictive policies involving greater self sufficiency, bilateral trade bargaining and an orientation toward Europe with corresponding danger of friction with the United States, if not economic warfare.[74]

That was frank enough, even if the idea of a Canadian tilt toward a virtually prostrate Europe was not entirely believable in 1947.

How far were the Canadians prepared to go, the Americans asked. A customs union was out of the question, Deutsch and McKinnon replied. That "would be politically impossible in Canada because it would be interpreted as abandoning the empire and constituting a long step in the direction of political absorption by the United States."[75] Moreover, both parties realized that a customs union meant that Canada would be an unequal partner and would have to adjust her tariff to that of the United States. Deutsch privately told friends that "the price of a customs union with the U.S. is a loss of political independence in the sense that we would no longer be in effective control of our national policies. . . . Policy would be shaped in Washington. A customs union . . . may be a fine thing. . . . But let us not blink the price."[76]

Nonetheless the Americans were considering just such a proposal. A trade agreement would not get through Congress but, as Paul Nitze of the State Department's Office of International Trade Policy, wrote, "some plan sufficiently bold and striking to fire the imagination of the people and force favorable action by Congress" might. His idea was "a special form of customs union under which there would be substantially free trade between the two countries but each would retain its separate tariff vis-à-vis third countries." Nitze thought there would have to be some exceptions to free entry, but even so this solution could meet the Canadian concerns about the orthodox type of customs union.[77]

This idea was presented to Deutsch at a Washington dinner party on New Year's Eve, 1947. Deutsch thought the idea would be "political dynamite" and promised to sound out his masters in Ottawa.[78] Deutsch personally liked the idea. The son of a Saskatchewan farmer, he was a free-trader by inheritance and conviction, and such a scheme would force inefficient central Canadian manufacturers to adapt or die. It would also increase the overall competitiveness of Canadian business and offer a promising opportunity to switch exports from the collapsing British market to the dynamic and growing American one.

In Ottawa, Deutsch found some skepticism at the Bank of Canada and in some quarters at the Department of Trade and Commerce. But C.D. Howe, the minister of trade and commerce, was enthusiastic, and so was Douglas Abbott, the minister of finance. Clifford Clark and Lester Pearson, the senior officials in Finance and External Affairs, were also supportive, and so too, much to Deutsch's surprise, was Mackenzie King. "It is clear to me," King noted in his diary, that "the Americans are losing no opportunity to make their relations as close as possible with

our country."[79] Deutsch had the green light, and the staffs in Ottawa and Washington went to work on the plan in deep secrecy.

The Americans, it seems clear, saw this as an opportunity. Woodbury Willoughby of the commercial policy division of the State Department wrote that Canada and Britain were at the parting of the ways, unconsciously sounding much like President Taft 37 years earlier. What was more, there was little cost to the United States in the plan. "Taken as a whole," Willoughby wrote, "imports from Canada would offer little threat to American producers. Nearly three-fourths by value of our present imports from Canada are already on the free list and in most other cases the duties do not offer a serious barrier." The only areas where there were problems, he argued, did not pose insuperable difficulties — wheat, flour, fish fillets, potatoes, cattle, aluminum, zinc, cheese, frozen blueberries, and silver fox furs.

The Canadians, Willoughby thought, had more difficulties. The Americans had a great advantage in manufacturing because of the size of their market, but "a transition period during which duties were progressively reduced would greatly ease problems of readjustment in Canadian industries." He added that the Canadians believed "that there are many products that could be manufactured as cheaply in Canada as in the United States and that the effect of duty elimination would be to encourage specialization." In other words, some products might be made in Canada to serve the whole North American market.[80]

The overall plan, ready by the beginning of March, involved seven main points:

(a) Immediate removal of all duties by both countries.

(b) Prohibition of all quantitative restrictions on imports after 5 years except that (1) the United States would retain right to impose absolute quotas on imports of wheat and flour, and (2) Canada would retain right to impose absolute quotas on imports of certain fresh fruits and vegetables during Canadian growing season.

(c) The United States would retain right to impose absolute transitional (5-year period) quotas on certain products now subject to tariff quotas . . . with provision for progressive increase in quotas during 5-year period.

(d) Canada would retain right to impose absolute transitional quotas on certain products during 5-year period, with provision for progressive increase in quotas during period.

(e) Provision would be made for joint consultation, particularly for working out joint marketing agreements for agricultural products.

(f) Any controls imposed on exports of short-supply items would be made subject to principle of equal sacrifice and equal benefit, and advance consultation would be required before imposition of such controls.

(g) Consideration is being given to a clause ensuring, in the event that

> one country is subject to military attack, continued free access to the products of the other.[81]

There were great advantages to this plan. It was simple and easy to operate. It would effectively eliminate all imperial preferences granted by Canada, a long-sought U.S. goal. And Canada, the Americans thought, could even offer the same proposal to the British. For Canada, the scheme gave virtually free access to the American market on most Canadian goods immediately, and it allowed Canadian manufacturers five years to prepare for free trade. It would also mean greater integration on the continent, although as Deutsch argued, the chaos in the world economy was forcing this in any case. The only question was whether Canada negotiated now as an equal or later as a supplicant.[82]

The plan found its way to the prime minister by mid-March. His initial reaction again was good, or so Deutsch told Willoughby. But in fact, by that time King had begun to reverse direction. On March 6, the prime minister liked the idea; ten days later, he had some doubts. These were increased when *Life* magazine came out — quite coincidentally, it seems — with an editorial calling for a customs union. That article frightened King. A week later he wrote in his diary that the customs union was "almost the largest proposal short of war any leader of a government has been looked to to undertake. Its possibilities are so far-reaching for good on one hand, but possible disaster if project were defeated that I find it necessary to reflect a good deal before attempting final decision."[83]

Two days later on March 24, King reached his decision. He picked up a book, Sir Richard Jebb's *Studies in Colonial Nationalism* (published in London in 1905) and was struck by a chapter "The Soul of Empire." Would free trade not destroy the unity of the empire and, worse, destroy the regard in which Canadians held King? Would it not allow the Tories to portray him as selling out Canada to the Yankees? That did it. "I would no more think of at my time of life and at this stage of my career attempting any movement of the kind than I would of flying to the South Pole," King wrote.[84] The customs union was dead, bar the shouting.

There was some. Pearson tried to persuade King to go ahead, as did Hume Wrong, the Ambassador in Washington. But it was no use. Even though he was 73 years old and only months away from retirement, King so dominated his government that he could get his way. The best the officials could get was a suggestion in the official note to the Americans suspending the talks that "it is thought that trade discussions might begin again if and when a satisfactory North Atlantic Security Pact is signed. It would be natural for the trade discussions to be related to the pact, since they are concerned with measures for economic defence against aggression." The talks that eventually led to the North Atlantic Treaty had been underway for some time in complete secrecy, but they eventually dragged out so long that it was clear that it would be 1949

before the customs union talks would resume, if ever. And once King was gone in the fall of 1948, his successor, Louis St. Laurent, was more than a little cool to the resumption of negotiations. He was concerned about his province's attitude and concerned too that if he, a French-Canadian, did away with imperial preferences and linked Canada to the United States, the reaction in English Canada might resemble that of 1911.[85]

Thus the customs union died on the drawing boards. To some, it was the chance of a lifetime to link Canada on favourable terms with the American economy. To others, and particularly to Mackenzie King, it was yet another attempt to see Canada swallowed up by the giant to the south. It was also political dynamite, just as Deutsch had said in December, but the explosion might have been powerful enough to destroy the government. The idea was gone, not to return in a powerful form until the 1980s.

Toward Free Trade Again?

Throughout the 1950s, Canada's trade generally boomed. But there were potentially disquieting signs. Despite valiant efforts, embodied in the loans to Britain and Western Europe, trade with overseas countries tended to fall as a percentage of total Canadian trade, while trade with the United States mounted annually. In 1955, 60 percent of Canadian exports and 73 percent of her imports came from the United States. In addition, the United States was the source of 76 percent of foreign capital invested in Canada.[86] More and more, Canada was becoming a country with one market only.

That condition worried many. When John Diefenbaker came to power in 1957 one of his post-election promises was a pledge to shift 15 percent of Canada's trade from the United States to Britain. This was, the new prime minister said, "a direct challenge to British industry and initiative." The officials in Ottawa, who had known nothing of this promise before it was delivered, were flabbergasted. A diversion of trade on that scope was impossible to achieve for it meant an increase in imports from Britain of $625 million. How could such growth be achieved when the British share of the Canadian market was continuing its decline — from 56.1 percent in 1870 to 16.8 percent in 1921 – 31, and down to 8.5 percent in 1956? Moreover, for more than half of the Canadian import market, Britain had no chance as a supplier, either for lack of goods or because of design problems. What that meant in effect was that 35 percent of the trade in suitable areas would have to be switched from American to British suppliers. Such a move was impossible and the Diefenbaker initiative died quickly. So too did a British ministerial proposal for Canada–U.K. free trade in September 1957, an idea that Diefenbaker dismissed on the grounds that he "could not see what advantage there would be in it for Canada."[87]

On the other hand, the Diefenbaker government actively sought a larger share of the American market in defence-related materials. After a long diplomatic campaign, Canada secured American agreement in 1958 to a defence production-sharing agreement that was intended to give Canadian firms a crack at the American market, thereby offsetting the heavy purchases made by the Canadian forces in the United States. The next year, in fact, the Eisenhower government agreed to exempt Canada from the provisions of its Buy American act, that restricted government purchasing to American firms. As a result, Canadian suppliers were freed from the 6 to 12 percent premiums which the act ordinarily added to foreign bids for defence contracts, and tariffs were treated lightly. In effect, the exemption created a kind of sectoral free trade arrangement in defence production, a logical continuation of the Hyde Park Agreement of 1941. The results, however, never quite lived up to expectations, although during the Vietnam War, for example, Canadian sales to the U.S. Department of Defense were substantial.

Even though it had sought the defence production agreement with Washington, the Diefenbaker government continued to fear for its overseas markets. This was most evident in the government's opposition to the proposal that Britain enter the European Common Market. What concerned Ottawa was the extent to which European trading arrangements would shrink Canadian markets overseas while increasing Canadian dependence on the United States. Despite official studies that demonstrated that British entry would have only a relatively minor impact on Canadian trade to the United Kingdom — only 10 percent of Canadian-British trade would be affected, Gordon Churchill, the former minister of trade and commerce wrote to Diefenbaker — the government resisted strongly. At the Ghana meetings of Commonwealth finance and trade ministers, Donald Fleming and George Hees created a ruckus with their assaults on British desertion of the Commonwealth. John Diefenbaker did the same at the Commonwealth prime ministers' meeting in 1962, and charges of a betrayal of the empire-Commonwealth were in the air. In the end, the Canadian Conservatives were saved by President deGaulle of France who blocked Britain's entry into Europe in January 1963.[88]

Still, the Common Market had serious implications for Canada. It implied that Europe was on the way to becoming an economic unit of great power. At the same time, the emergence of Japan as an economic giant was also well underway. What did all this mean? To Simon Reisman of the Department of Finance, a free trader then and later, it meant that Canada should move toward free trade with the United States. Speaking in confidence to Grant Dexter of the *Winnipeg Free Press* in October 1961, Reisman's reasoning was clear. The pressure to unite Europe was exerting similar pressure on North America, and in self defence Canada and the United States should move closer together.

"He does not believe our nationhood would be menaced. There might be some loss of sovereignty. But so there is in Europe." The historical processes could not be checked. "Our relationship to the U.S. has been getting closer and closer over the decades. . . . Integration need never be political. He did not see why it must be. But the economic integration — defence and all that — must go on apace. This was inevitable and, he thought, desirable."[89]

Perhaps it was, but the idea was not pursued. What was sought instead was a special place for Canada at the Kennedy Round trade negotiations in Geneva. There were difficulties. The Liberals had returned to power in the elections of April 1963, and there were serious differences between the generally free-trading Mitchell Sharp and his Department of Trade and Commerce and the more protectionist Walter Gordon and his Department of Finance. The Canadian position was that linear tariff cuts, proposed by the Americans who wanted all the GATT countries to reduce tariffs by half over five years, were not equitable for Canada, which was dependent on raw material exports and the imports of manufactured goods. As one trade official said, "Since we import about ten times more manufactured goods than we export, a linear cut in the Canadian tariffs to match a linear cut in the tariffs of our major trading partners would clearly be out of balance in terms of compensating benefits received and given by Canada, as well as being out of all proportion in terms of the degree of adjustment that would be required in Canadian industry as compared with the mass production industries of the U.S. and Europe."[90] That position was reluctantly accepted by the Geneva participants.

To work out the detailed Canadian position, the Canadian Tariffs and Trade Committee, chaired by Norman Robertson and with Hector McKinnon as vice chairman, began hearings at the beginning of 1964. These two veterans of trade negotiations in the 1930s might have reflected on the changes in the way trade policy was formed in Canada. In 1911, Fielding had dealt with the Secretary of State; in 1935, three officials had talked with a similar number from Washington; by 1964, hearings were held to which industry presented 450 separate briefs and the government negotiating team for Geneva had representatives from Trade and Commerce, Finance, External Affairs, Mines and Technical Surveys, Agriculture, National Revenue and Industry, and a cabinet committee chaired by the Prime Minister kept watch. Policy now was carefully detailed, not made up as the negotiators went along.

The result at Geneva, after long negotiations and cabinet wavering, was that Canada made concessions on $2.5 billion worth of imports, almost $2 billion of which came from the United States. In return, the Americans offered concessions on a similar amount of Canadian exports, eliminating duties on lumber and paper and on some classes of fish and agricultural products. Other U.S. tariffs were substantially

reduced.[91] It was not quite free trade, but to a substantial extent tariffs were now becoming almost inconsequential.

In some areas of production, in fact, Canada was interested in free trade. The idea had emerged in the auto industry and there had been suggestions for sectoral free trade made as early as 1964 by Norman Robertson. But it was the auto sector that was critical. On November 1, 1963 the Canadian government extended to imports of motor vehicles and parts a duty rebate plan which had been put in place a year earlier for auto transmissions and engines. Under the plan, Canadian manufacturers could earn duty rebates on imported parts and vehicles by increasing exports from Canada. To the United States, this was an indirect subsidy to Canadian exports and thus subject to the American countervailing duty statute. For the next 18 months, there were negotiations and American threats of action, but all this culminated in June 1964 with broad negotiations on the whole North American auto market. The Americans and Canadians both had decided that free trade in vehicles and parts was in their joint interest, and an agreement to that effect was signed in January 1965.[92] The basic concept was that if the U.S. parent companies made room in their domestic markets and operations for the products of their Canadian subsidiaries, then the branch plants could specialize and become more efficient. The Auto Pact eliminated duties on Canadian cars, trucks, buses, parts and accessories for assembly admitted to the United States; Canada did the same, but in recognition of the fact that costs and prices of cars in Canada were higher and would remain so for a time, only manufacturers who met specified criteria could import duty free into Canada. Congress accepted the Auto Pact — after much hesitation and a major White House and Treasury–Commerce Department lobbying effort — in October 1965.[93] By June 1967, according to American figures, trade in auto parts had expanded rapidly to become the largest single item in Canadian-American trade. U.S. exports to Canada rose from $660 million to $1.3 billion and U.S. imports from $75 million to $900 million between 1964 and 1966. Investment in the Canadian auto industry as a result of the Auto Pact was estimated at $500 million, Canadian vehicle production was up 35 percent and employment in the auto industry up 27 percent. Half the cars and trucks produced in Canada were being sold in the United States.[94]

So favourable to the Canadian interest was the Auto Pact that President Johnson (angry at Canada's Vietnam policy and at Pearson's Temple University speech calling for a bombing halt) actually snapped at the Canadian Ambassador that "You screwed us on the auto pact!"[95] Before too many years had passed, however, Canadians were beginning to feel that they had been screwed when the balance in trade of auto parts turned sharply in favour of the United States after 1973 and reached $3 billion in 1979. Sectoral free trade, in other words, had its advantages and disadvantages.[96] On the other hand, the auto industry in Canada had

grown and developed markedly. Without the Auto Pact, it might have withered.

The limited success of the Auto Pact has encouraged Canadians and Americans to look to additional sectors of the economy where free trade might be beneficial. For Canada, suffering in 1980 from a trade deficit of $17.8 billion in manufactured end products,[97] there were only a few sectors where Canadian goods might be able to compete. Not surprisingly those sectors were included in the list. Textiles, data services, steel, agricultural implements, petrochemicals and government procurement were all mentioned in the exchanges between the two governments, and in early 1984 the pace of discussion and preliminary negotiation between officials of both countries was accelerating. The climate seemed right. Already some 80 percent of Canada's exports to the United States enter free of duty, while 66 percent of American exports to Canada are duty free; the total trade between the two countries amounts to $110 billion a year. Foreign competition is increasing and while tariffs have fallen substantially, thanks to the rounds of multilateral trade negotiations since 1946, various new non-tariff barriers have been put in place. Thus, to some there again seemed to be advantages in tying Canada and the United States together in the face of an increasingly hostile trading environment throughout the world. As the Canadian Ambassador in Washington put it, "More than ever, Canadian industry must be competitive to survive, both within Canada and in export markets. More than ever Canadian industry must have open and secure access to U.S. markets to achieve economies of scale and effective rationalization of products lines needed to remain competitive."[98] The Americans could say much the same things.

If there were pressures for free trade, there were countervailing forces too. In the United States, the trade deficit for 1984 was expected to reach $100 billion, and protectionist sentiment for what the *New York Times* called "fortress America" was mounting. Industries had turned to the government for help in stemming the flow of imports, and the Reagan Administration had responded to the increasing number of requests by cutting imports of Japanese autos, specialty steels, motorcycles, textiles and apparel. Democratic presidential candidates, not to be outdone, called for "domestic content" regulations.[99]

In Canada, by contrast, there has been generally strong support for the government's efforts to move into negotiations with the United States. The Progressive Conservative party appears to have shed its history and, according to Michael Wilson, formerly the Opposition critic on international trade and later minister of finance, Canada has to move quickly to free trade before protectionist sentiment in the United States makes agreements impossible. There are also critics. Senator Michael Pitfield has bemoaned the absence of discussion in Canada on the implications of free trade and feared that the government was pressing

ahead so fast that the country would be committed to the scheme before the people realized it. Abraham Rotstein of the University of Toronto noted that Canadians think free trade is fine so long as it comes in the sectors where Canada gets the advantages. "But no one asks: what does the U.S. want in return? Just as there's no free lunch, there's no free trade."[100]

What of the political implications for Canada? Sylvia Ostry, deputy minister of international trade, argues that although Canada's economic links with the United States have increased in recent years, Canada remains very much a nation with a sense of itself. Mitchell Sharp, a former politician and as such probably more sensitive than Sylvia Ostry to public moods, disagrees. He told a Washington conference that "to enter into a free trade area arrangement with the United States is to alter fundamentally the direction of Canadian policy, not so much in economic terms as in political terms, and I do not think Canadians are prepared to do so."[101]

No one should expect a historian to attempt to forecast the future or to try to guess what the outcome of this debate will be; that is something best left to the futurologist political scientists and politicians. But historians can indicate the causes of debate in the past and can show how questions were resolved. They can also highlight the trends in long-lasting issues.

The first thing that must be said is that reciprocity has always been contentious. There has never been a period when everyone cheered as one in favour of it. There were always the businessmen and farmers whose special interests would be hurt by unimpeded access to the Canadian market for American products. There were always those who feared the United States — for its republicanism, for its bellicosity, for its polyglot and violent society. And there were always those who wanted Canada to remain a British country, part of the empire–Commonwealth, and who feared that reciprocity inevitably would pull Canada into the American union as another state or states. Against the critics were those Canadians, very often those with their own special interests, who wanted reciprocity. At various times this has included the businessmen of Montreal who feared that their markets in England were gone or the farmers of the Prairies who wanted cheap farm implements and less expensive consumer goods. There were also those, like Laurier, who believed that reciprocity made simple economic sense, that prosperity was good for Canadian unity and that reciprocity meant prosperity, and that the super-imperialists were draping themselves in the bloody shirt of loyalty only to protect their wealth. The British connection, in other words, was a powerful factor in every discussion of reciprocity in our history, a disincentive for those who sought closer trade links with the Americans. It is fair to say that this factor no longer matters.

Canadian nationalism still matters, however. The first time that nationalism was raised as a counter to reciprocity was in 1911 (to be sure, along with imperialism), and it was also a factor in the trade discussions of the 1930s and in the decision to abort the customs union talks of 1947–48. In some respects, this economic nationalism has been little more than a reaction by central Canadian businessmen to protect their manufacturing interests against American competition. Overall it has always been something more. There has been, and remains, a strong feeling among Canadians that there are differences between their society and that of the United States and a fear that an open border for trade might somehow weaken the fragile flower of Canadian nationalism. Vincent Massey once wrote a book called *The Price of Being Canadian* which sketched out the higher costs and somewhat shrunken opportunities that Canadians had to bear to retain their separateness. To many that price has historically been too much to bear, one explanation for the large numbers of Canadians who live in the United States. But Canadians have been generally prepared to pay the price of being Canadian, and the strong, if ill-defined, fear of the United States and its economic power has helped them to that decision.

There can also be no doubt that reciprocity discussions between Canada and the United States historically have intensified when times were bad. The interest in the idea in the 1850s fits the pattern, as does that in the 1880s. In 1911 the economy was just reaching the end of a long boom, and in the 1930s the trade discussion took place in the gloom of the Depression. The customs union negotiations of 1947–48 occurred in a period of great postwar dislocation, a time when the growth of the Canadian economy seemed seriously in jeopardy because of a lack of American exchange. And, of course, the current interest in sectoral free trade in Canada has its roots in a very shaky economy. When times are difficult, in other words, Canadians and Americans think about bringing their economies together; when the economy is booming, there is a lessening of interest in reciprocity.

There is also a foreign dimension to reciprocity. In the 1930s, the two countries came closer together economically because the United States was interested in cracking the British preferential system and was prepared to make some concessions to Canada to achieve this. In 1947–48, with the European economies in ruins because of the war and with the Soviet armies standing at the Elbe, there was a clear understanding in Washington, and in Ottawa, that the two North American nations had interests in common. The 1947–48 talks discussed the possibility of a defence clause as part of the customs union package, a significant inclusion, and the discussions then underway for the North Atlantic Treaty also had, at Canadian insistence, an economic component. In the threatening world of the 1980s, is it not possible that free trade talks similarly might have a defence dimension? Or has the strong reaction

against the testing of the cruise missile in Canada and the calls for a nuclear freeze that occasionally enlivened the 1984 election campaign made the possibility of closer military links between Canada and the United States less likely?

There is another aspect to the history of Canadian-American reciprocity discussions that needs mention, and that is the bureaucratic element. To 1935, the trade discussions were almost entirely one-man shows on each side. The prime minister would send an emissary to Washington who would negotiate in secret with his American counterpart. In 1935, for the first time, small teams of trade experts negotiated on behalf of their countries, and a similar pattern occurred in 1947–48. But that process could not take place again. The Kennedy Round negotiations of the early 1960s set the pattern for the current era — public hearings across the country to receive industry briefs, a very large officials' committee with representation from ten or more departments in Ottawa, each with its own special interests to advance or protect, and a cabinet committee of powerful ministers to haggle over the policy and agree on the concessions. There seems no reason to believe that any new government could alter that bureaucratic-political structure; if anything, the increasing complexities of the trade issues between Canada and the United States make such a structure inevitable. Can radical changes in Canadian trade result from such a structure? Or does the increased bureaucratization of the process mean that only incremental change can ever result?

Finally, it is a truism to say that every trade agreement benefits some and hurts others. The western farmers in 1911 thought they had made gains in the draft reciprocity treaty of that year, but the central Canadian manufacturers feared its implications. The 1947–48 negotiations posed a threat to Canadian manufacturing, as John Deutsch and Hector McKinnon knew, but they believed (even if Prime Minister Mackenzie King did not) that the protections they had negotiated would certainly allow the strong industries to adapt, to survive and to have clear benefits for Canadian consumers. In that particular case, the political leadership weighed the bargain and found it wanting. In terms of his political calculus, Mackenzie King was probably right to have acted as he did in scuppering the customs union. To King, the politics and emotions of the issue took precedence over the economic implications, in substantial part because he remembered what had happened to Laurier in 1911 when the economic implications had been allowed to outweigh the political. There is a lesson there. Reciprocity or customs union or sectoral free trade, whatever its name, is very much an emotional political issue, and there seems little reason to believe that the 1980s have altered this fundamental fact. There are not very many lessons in history that stand out clearly; one that does, however, is that free trade between Canada and the United States has major political implications in Canada. Any political leader who forgets that does so at his peril.

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3

Economic Nationalism and Continental Integration
Assumptions, Arguments and Advocacies

KIM RICHARD NOSSAL

Introduction

A persistent and continuing feature of Canada's existence as a separate political community on the North American continent has been, in the words of the government of Pierre Elliott Trudeau, "the complex problem of living distinct from, but in harmony with" the United States.[1] The United States has historically been regarded with ambivalence by those in North America who wished to fashion — and maintain — a polity distinct from the expanding republic to the south. On the one hand, there have traditionally been the ties of what in the rhetoric of North American relations is called "friendship": a sense of continental community that has been bred by commonalities of political culture, of ideology, and — for English-Canadians, at least — of language; by a web of transborder linkages that span the range of human activities; and by a persistent tendency of Canadians to define their interests in terms of harmonious, and not conflicting, relations with the United States.

On the other hand, there has been a concomitant sense of unease in Canada that the size, power and vitality of the United States pose particular dangers to the existence of Canada as a separate political community. The complex web of relationships — familial, functional, cultural, economic, financial, environmental, military, and diplomatic — is so pervasive and extensive that the ability of the smaller community to pursue national aims and goals independently of the larger one is constantly constrained by the existence of these linkages.

Nowhere has the ambivalence of Canadians toward the United States been more pronounced than on the question of economic linkages. On the one hand, Canadians have welcomed the benefits of economic

exchange with the United States, which have come in large part from access to the American market that has, over the long haul, been relatively unrestricted. And Canadians have generally welcomed the benefits of urbanization, industrialization and employment that have come with the influx of American investment capital triggered by Sir John A.Macdonald's National Policy and accelerated by the decline of Britain's hegemonic position after the First World War.

On the other hand, since the National Policy was put in place, Canadians have generally been skeptical about the effects on their nation of the processes of economic integration, either through trade or through investment, into a larger, North American, continental economy. Such skepticism has been overtly expressed at least twice in Canadian history. The first instance was the election of September 1911, when the electorate in English Canada rejected the reciprocity treaty negotiated by Sir Wilfrid Laurier's government. The second was in the late 1960s and early 1970s, when concerns about the extent of United States investment in the Canadian economy became a heated political issue that prompted considerable government action — from the creation of the Foreign Investment Review Agency in 1974 to the introduction of the National Energy Program in 1980. Expressed or not, public unease has often been assumed by politicians to be a latent feature of Canadian sentiments. In 1948, for example, W.L. Mackenzie King rejected the idea of free trade because of fears that posterity would regard him as the prime minister who had sold Canada to the United States.

Much of the Canadian ambivalence toward economic linkages with the United States can be explained by the pervasiveness of economic nationalism in the Canadian political culture. Canadian economic nationalists argue that integration into a foreign, and particularly American, economy is not in the interest of the nation. Underlying the economic nationalist perspective is the assumption that, to be viable, a nation-state should seek to keep foreigners from owning its resources or its industries and should seek to avoid dependence on foreigners. In other words, a nation should strive to forge a distinct economic unit to safeguard its political, cultural and social separateness.

The assertions and assumptions of economic nationalism are rejected by a group that favours expanded economic linkages with the United States. This group cannot with ease be labelled. Although some economic nationalists have described them as "continentalists," such a term is clearly inappropriate. In the context of Canadian politics, continentalism implies political ideals that involve the ultimate absorption of the Canadian nation-state into a single North American political entity, commonly via annexation by the United States. Thus, while it is a useful forensic device for conjuring bogeymen who would "sell out" Canada (or, in the past, the empire), to the Yankee, the term continentalism misrepresents entirely the arguments presented in favour of expanded

economic linkages with the United States. "Anti-nationalist" or "cosmopolitan" are equally inappropriate modifiers. Anti-nationalism properly refers to a critique of nationalism as an organizing ideology for a political community of the kind found in Pierre Elliott Trudeau's *Federalism and the French Canadians*; likewise, cosmopolitanism — the antithesis of nationalism — encourages the rejection of national boundaries and differences. Because the arguments of this group tend to stress the benefits of economic integration between Canada and the United States and downplay the political costs, they might usefully be thought of as "integrationists," and that is how they are termed in this study.

The purpose of the study is to examine Canadian economic nationalism, the antithesis — integrationism — that in some sense it has spawned, and the importance of these contending viewpoints to contemporary discussion of economic policies and strategies for Canada in the 1980s and 1990s. The paper begins with a reminder that is critical to its purpose: that economic nationalism is but one manifestation of that larger ideological disposition to identify with "nation," and that economic nationalism in Canada cannot be understood unless it is placed within the context of nationalism writ large. The first part of the study thus seeks to explore the nature of economic nationalism. The paper then surveys the major strands of both the economic nationalist position and of the integrationist position. This is followed by an assessment of the arguments put forward on both sides and the assumptions on which they are based. A final section examines the policy implications that can be drawn from the contending arguments.

A caveat is in order at this juncture. It will be readily apparent that the positions of economic nationalists and integrationists alike outlined in this paper are rooted in the history of Canada's economic and political evolution. At first blush, it might be contended that focussing on the politico-economic concerns of the past may be of some intrinsic historical interest, but will have little practical application to the economic problems of the contemporary period. It is tempting to argue that, after all, the world has changed, and that the contemporary international economic system is vastly more complex, more extensive, and, above all, different from previous systems. Contemporary economic problems, we are told, focus on declining American economic hegemony, non-tariff barriers, the regionalization of global trade, an increasing specialization in the international division of labour, and the concomitant problems of de-industrialization, persistent and structural unemployment and fierce international competition. The concerns of economic nationalists in the late 1960s, by contrast, appear as old-fashioned or as redundant in the context of the 1980s and 1990s as the reciprocity debates of 1911.

However, it is important to note that the purpose of this paper is not to

focus on the contemporary international economic system, or on alternative Canadian strategies designed to cope with an economic environment which indeed has changed markedly since the abrogation of reciprocity helped bring this nation-state into being. Rather, its focus is on a phenomenon which has *not* changed markedly. Nationalism in general, and economic nationalism in particular, is a phenomenon which has in its essence remained remarkably constant over a period of many generations. It promises to continue to dominate national and interstate politics regardless of the nature of the economic problems that will be particular to the 1980s and 1990s. In Canada, the appearance of economic nationalism in politicized form tends to be unpredictable, as Laurier and St.Laurent discovered; it appears to be cyclically, albeit inversely, tied to the health of the Canadian economy. (Given contemporary consideration of sectoral free trade, accounts of how Canadians responded to the economic stagnation of the 1880s make interesting reading.) However unpredictable or cyclical, though, the existence of nationalism remains fundamental to Canadian politics and policy. In the conclusion of this paper, I will argue that what may appear to be merely an "historical" phenomenon has continuing political and philosophical implications for those who must chart Canada's course in the contemporary international economic system.

The Nature of "Economic" Nationalism

The purpose of this section is to explore in a detailed way the nature of economic nationalism. Such a definitional exercise is made necessary by loose contemporary usage, which too often implies that "economic nationalism" is a thing in itself, bearing little relationship to ideas about "nation" and an unmodified "nationalism." For example, the term loses much of its meaning when it is used as a shorthand method of describing (or, more commonly, denouncing) the public policy initiatives of one state that are perceived to damage the economic interests of citizens, corporate or private, of another state. Its meaning is further obscured by the contemporary propensity to use "economic nationalism" as a synonym for "protectionism."[2] But the terms are *not* synonymous. Economic nationalism is not of necessity protectionist and protectionism is not by definition nationalist; a firm distinction should therefore be maintained between economic policies that are motivated by a desire to protect parochial or national economic interests but are not driven by nationalist ideals, and those with the same motivation, driven by a desire to advance the nationalist ideal. The argument posited here is that economic nationalism cannot be separated analytically from the wider context of nationalism.

The Essence of Nationalism

Economic nationalism is but one face of the nationalism that pervades the contemporary comity of states, transcending divergent systems of thought.[3] The nature of nationalism itself thus deserves some consideration.

The argument presented in this paper hinges on the assumption that nationalism is first and foremost an emotion.[4] While where are a number of necessary preconditions for the existence of nationalism,[5] it must always be a sentiment subjectively felt by members of a nation. But nationalism is also an ideology; it posits a systematic and integrated set of normative and prescriptive assumptions about political relationships between the individual, the nation and the state on the one hand, and between the nation-state and the international system on the other.[6] These ideological sentiments may be briefly summarized as follows:[7]

1. a sense of self-defined membership in a national community, a sense of identity with other fellow nationals, and a paramount loyalty to the nation;
2. a concomitant sense of either indifference or hostility to others not perceived to belong to one's nation;
3. a sense of the history of the nation: a shared pride in the perceived historical victories, achievements and successes of the "nation," a comparable sense of shared sorrow in its perceived historical defeats and anguishes, and a shared hope in the future of the nation;
4. a desire to have the "nation" occupy its proper patria–territory or homeland;
5. a desire that the "nation" be self-determining, in other words that it comprise a polity that is governed by a "national" state apparatus recognized as the sovereign political authority for the nation by other nation-states.

The subjective nature of such sentiments is immediately recognizable. Unlike many traditional definitions of nationalism, which tend to see "nation" primarily in terms of race or ethnicity,[8] there is no presumption in this argument that nation is an objectively identifiable group based on commonalities of race or ethnic origin, or cultural, social, religious or economic institutions or mores, or even language (although each of these, particularly language, is usually present in some degree). Nor is there a presumption that the more tangible objective manifestations of nation — a territory or sovereign government — must actually be present for nationalist sentiment to exist; coveting the achievement of self-determination or the settling of a particular territorial "homeland" is often more powerful in binding members of a nation together than actual possession of these coveted attributes. Likewise, the "history" that is used by every nation to provide a sense of itself need bear little relationship to historical reality; the shared remembrances may in fact be

little more than symbolic mythology. In short, the bonds of nationalism are neither tangible nor objective.

The ideological component of such sentiments is equally recognizable. Most importantly, regardless of the nature of the political system, nationalism serves to define strictly the parameters of the political loyalty of individuals. It demands that members of civil society owe primary loyalty to the nation and the ideals of nationalist sentiments. Supranational loyalties (to a religious authority, for example) or subnational loyalties (to an ethnic group or separatist nationality within the nation-state) are tolerated only to the degree that they do not compete with, or pose a threat to, the primary loyalty to nation. This is particularly true in cases where the nationalist ideology casts the nation as the most "natural" level of loyalty to human groups. In more tolerant societies, nationalism demands that loyalties to subnational or supranational entities be subordinated; in less tolerant polities, by contrast, competing loyalties are eliminated completely, often ruthlessly. Nationalism thus fuses the individual not only to the nation (the people and the land) but, by the logic of nationalist sentiment, also to the national state (the governing apparatus for the nation).

The state is critical to the nationalist perspective, because it is cast as the primary vehicle for asserting and maintaining the separate existence of the nation. Indeed, some have maintained that the modern state as a form of political organization was a necessary condition for the evolution of nation and contemporary nationalism.[9] First, the state's sovereign political authority and its monopoly of coercive power over members of civil society located within its territory give the state apparatus a capability unmatched by any other group to create and foster the symbols and sentiments of nationhood. The modern state's involvement in such key areas as education is one obvious means by which governments can socialize — and politicize — the nation's young; another is the modern state's position as the custodian of national symbols. It is the state which determines the nation's flag, its anthem and its other symbols.

Second, in the three and a half centuries since the Peace of Westphalia in 1648, two of the cardinal organizing norms of the international system have been institutionalized state sovereignty and territorial integrity. This makes the recognized possessor of sovereignty over a given territory the natural focus for its autonomy and the protection of the nation against others that might threaten its existence. Only the apparatus of state is recognized as the legitimate holder of sovereignty over a given territory.

While it is generally agreed that the twin phenomena of nationalism and the modern state are of relatively recent origin in the history of humankind, with roots that date back several hundred years at most,[10] one of the key ends, or objectives, of contemporary nationalism is

merely a 20th century manifestation of a goal pursued by political communities since the beginning of recorded history: self-determination. From the struggles of the city-states of Uruk and Nippur at the confluence of the Euphrates and Tigris rivers nine millenia ago to the rise of the nation-state in the present era, the evident desire of political communities to achieve self-determination has been a persistent — though by no means a universal (and therefore not a "natural") — feature of interstate and intrastate politics. The quest for self-determination predates by many centuries the institutionalization of state sovereignty in the 17th century and the rise of the nation-state as the predominant form of organizing political communities in the 20th century.

Self-determination involves the ability to make authoritative decisions for the polity indigenously, independently and autonomously. Historical forebears in different parts of the world may have had no concept of "nation" but nonetheless struggled for the ideals of "group autonomy, group cohesion and group identity."[11] Contemporary nationalists value these ideals no less. First, nationalists place value in making the ultimate locus of decision for the nation indigenous. In other words, the authoritative decisions for a nation are ideally to be made by its nationals. Second, nationalists value political independence, that is, having the highest political authority for a nation vested in an indigenous government with the attributes of internationally recognized sovereignty. Third, nationalists value autonomy — in Kantian terms, an ability to have a nation's actions conform to its preferences.[12]

It should be noted at this juncture that integral and necessary to nationalism's ideals and values is the existence of other politico-cultural entities which serve to give a nation a sense of itself. Indeed, the very nature of group identification and loyalty depends upon the most simplistic "we/they" dichotomy. Knowing who "they" are, in other words, becomes as important to group identity and loyalty as knowing who "we" are, for "we " can be only clearly identified by reference to "them," whether the reference is specifically to other groups or political entities, or generally to all other "foreigners" or "aliens."

The same is particularly true for national identity. A major — some would argue necessary — part of nationalism's emotional appeal is generated by the existence of external stimuli, notably the existence of other groups organized in self-defined entities (nations, states, empires, cities, kingdoms, tribes, etc.). These other groups, important for self-identification, do not of necessity foster sentiments of hostility, antagonism, or xenophobia, but over the long course of human history such sentiments have been the rule rather than the exception. Certainly that has been the case with nationalism. National identity has historically been fostered by the existence of either another group over which the nation can take pride in exerting dominance and superiority (a sentiment usually termed

chauvinism) or a group that poses a perceived threat to the existence or the ideals of the nation and thus provides a symbolic or actual rallying point for the nation.

In sum, the essence of the nationalist credo, if it may be called that, lies in the pursuit of three political ends: the maintenance of the *separateness* of the nation from others (nations, states or other groups); the maintenance of an ability of the nation to be *self-determining*; and the fostering of an adherence on the part of the nation's citizenry to the normative *goodness* of the nation as the natural basis for the political organization of the community to which they belong.

Economic Nationalism

No clear consensus emerges in the literature about the nature and causes of economic nationalism. One rarely finds discussions of economic nationalism treated as a discrete topic. Many of the foremost students of the phenomenon do not recognize it as constituting a distinct type of nationalism in their categorizations and classifications. For them, the economic elements or conditions of a nation's existence are not unimportant in the analysis of nationalism's appeal or even in accounting for the growth of modern nationalism.[13] However, such concerns tend to be subsumed within larger concerns about the ability of the nation to achieve the ideals of nationalism.[14]

In short, it can be surmised that contemporary scholars would be disinclined to agree with Harry Johnson's tautological definition of economic nationalism as a political program that "seeks to extend the property owned by nationals so as to gratify the taste for nationalism.[15] Instead, most students of nationalism, particularly in its 20th-century guise, would see it as a holistic ideology,[16] demanding that any definition encompass the entire range of human activity — cultural, linguistic, political and economic. Modifiers would thus be regarded as unnecessary and inappropriate for an understanding of the nature of nationalism. On the other hand, there is a long tradition in nationalist prescription (the writings of nationalists about how to achieve the national ideal) that focusses on the importance of economic factors to the well-being of the nation.

Much of the prescriptive writing on nationalist economic policy, particularly in the 19th century, had its wellsprings in opposition to the "cosmopolitan" or "liberal" economic theorists of the 18th century — the Physiocrats in France or Adam Smith in Britain. These theorists, whose perspectives developed in large measure in response to the dominant mercantalism of their own age, posited, inter alia, the benefits to national economies of the movement of goods, capital and labour across national borders unimpeded by state intervention or regulation.

In the main, they accepted what is colloquially (if incorrectly) termed

the interdependence[17] of the exchange economies of the nations of the post-Industrial Revolution era. More importantly, they accepted the necessary effects this had on national independence, for the benefit gained from increased economic exchanges, or economic interdependence, does exact a price. As economic exchanges between sovereign political communities increase, the freedom of those communities to behave in accord with their preferences becomes more and more constrained.

However, liberal economic doctrines, as Carlton J.H.Hayes reminds us, were not antinationalist, even though they carry the label "cosmopolitan" (generally regarded as the antithesis of nationalism). Instead, Hayes stresses that theorists like Smith, Quesnai or Mirabeau "took their nationality as a matter of course;" indeed, Adam Smith chose to title his work *The Wealth of Nations*.[18] Nonetheless, the appearance of liberal economic doctrines in the late 18th century spawned a set of writings and recommendations for national economic policy that were firmly opposed to free trade and the laissez-faire policy outlined in the works of liberal economic theory.

The practical, or policy, implications of anti-liberal economic theories — advanced mostly by German nationalists — lay primarily in the use of the national economy as a means of strengthening the nation, keeping it strong and separate from other nations, allowing its peculiar genius to flower, and encouraging its ability to make decisions for itself. Thus the independence of the nation was integrally tied to its economic independence. Not surprisingly, therefore, most economic nationalist theories advanced during the 19th century rejected outright notions of international economic interdependence as a normative good, the virtues of the "invisible hand" applied to nations as to individuals, and the putative benefits to all nations of comparative advantage.

By contrast, the obvious logical end implied by the ideals of national independence was the creation of an economic autarky. An economy that was not connected with, dependent on, or vulnerable to, other economies would, in the view of some nationalists, provide the nation with the ideal conditions for the pursuit of separateness of self-determination. It is thus not surprising that the pursuit of the autarkic ideal underwrote the work and the prescription of Johann Gottlieb Fichte, the seminal economic nationalist. A philosopher of the Romantic school, Fichte is better remembered for his work on Kant. He was also a firm German nationalist, however, his nationalism rooted in the Kantian ethic of the achievement of autonomy. If most of his writings on nationalism tended to stress the importance of culture and language to the resurgence of the German nation, he did contribute what might be considered the first, even if not the most important, work on economic nationalism.

What Hayes calls Fichte's "excursion into economics" was the pub-

lication of *Der geschlossene Handelsstaat* (The Closed Commercial State) in 1800. Fichte's argument rested on the assumption that the national state was the economic unit most beneficial for the individual and, in that sense, the book was a work underwritten by the nationalist ideal. But it was also a prescription for a particular kind of national economy, incorporating as it did a plea for the rejection of laissez-faire state policy domestically and the abandonment of either mercantilism or free trade internationally. In Fichte's view, two human evils — wars and exploitation — had economic origins. Wars resulted from mercantilist policies, and the exploitation of the individual came with liberal economic practices. He argued that if each national state strove for economic self-sufficiency and independence (i.e., closed itself off from economic intercourse with other national states), these evils would be eliminated.

The means to that autarkic end posited by Fichte were the steady and relentless reduction of external trade by the pursuit of what would later be called policies of import substitution, having the needs of the nation produced indigenously behind state-imposed tariff barriers. What little interstate trade remained in Fichte's ideal system would be strictly regulated and transacted by the state itself. (Interestingly, Fichte's autarky was primarily commercial, eliminating economic intercourse with other nations; intellectual exchange between nations and nationalities was to be encouraged, but only among "well-educated" citizens.)[19]

The ideas propounded by Fichte in 1800 have been explored in some detail because they represent in a fundamental, if somewhat reductionist, way the essence of economic nationalism. Fichte's ideas had little impact on national policies in the early decades of the 19th century, and his place as a foremost economic nationalist of the period was eclipsed by others such as Friedrich List or Henry Carey. But by 1900 the essence of his advocacy was well rooted in the national policies of all states touched by the Industrial Revolution (save, of course, the British state, which clung to free trade as a national policy throughout the period when other states were erecting barriers behind which national industries were designed to grow and prosper). The Fichtean ideal of numerous economic autarkies coexisting in peace and harmony was neither sought nor realized by the major industrial powers. However, the Fichtean notion that nation-building depended upon an economy that was in its essence closed to the forces of truly free economic exchange between national entities has underwritten both national policy and the basic precepts of nationalism throughout the 20th century in the vast majority of national systems, regardless of their other ideological differences.

From the prescriptive nature of Fichte's work, one can begin to draw conclusions about the nature of economic nationalism as a distinct type

of nationalism. Economic nationalism, it might be suggested, focusses on the importance of economic factors to the existence, strength and durability of the nation. The basic premise of economic nationalism, like that of unmodified nationalism, is that a separation between different spheres of human activity (for example, between politics, culture, or the economy) is analytically spurious at best and politically dangerous at worst. Just as the achievement of political independence is a necessary precondition for the ability of the nation to fulfill its need for self-determination, so too is its ability to give expression to both its cultural independence and its economic independence necessary for the maintenance of the nation as a separate and viable political entity. In short, one cannot have independence in but one sphere and still achieve the national ideal.

If economic nationalism's focus is on the achievement of economic independence for the nation, there is little agreement on what constitutes economic independence. Political independence can be measured by the achievement of a sovereign government; there is no comparable measure for economic independence. Thus the ideals sought after by economic nationalists have varied with changing economic conditions. However, ideals common to economic nationalists have been to ensure indigenous control and ownership of resources and the means of production; to enable the nation to create a modern and complex industrial structure; to reduce or eliminate the vulnerability of the economy to external trade; to reduce or eliminate the sensitivity of the economy to international market pressures; and to reduce or eliminate the dependence of the economy on alien sources of capital, technology, or even labour.

Economic nationalism, as an *emotion*, is the desire that the nation have the ability to make decisions about its economic condition and structures indigenously, independently and autonomously. It thus mirrors the fundamental concerns of an unmodified nationalism; what is different is its focus on the importance of the economy to the health and vitality of the nation.

In this, economic nationalism, as emotion, also embraces one of the key elements of nationalist ideology: the necessary existence of an antagonist. Important for the existence of economic nationalism is the existence of an alien entity which can be pointed to either as the model or ideal toward which the national economy should be driven, or as the prime factor standing in the way of national economic self-determination. In either case, the identification of a foreign "model" or "threat" provides an important rallying point for ideal economic self-determination and economic separateness.[20]

As *policy*, economic nationalism encourages interventionism by the state in the economy of the nation. This is consistent with the importance of the state to the nation's existence and health; since the nation is

a public good, its protection and advancement demand that spheres of private exchange that are seen to pose a threat to it be regulated by the state. Depending on the perceived problem and the ideal being sought, economic nationalism as policy will vary. It may include: discriminating by legislation and practice against an antagonist; creating "infant industries" behind tariff barriers; regulating foreign investment; legislating ownership requirements; nationalizing key sectors of the economy; using the state to promote (or inhibit) or direct external trade; and many others besides.

But it bears stressing that economic nationalism should not be defined in terms of outputs — economic policy instruments chosen by the state. Tariff barriers, nationalization, or state trading agencies are not of necessity examples of policies driven by economic nationalism. Whether or not state behaviour is nationalistic depends upon *motivation*. And economic nationalism, as emotion or as policy, is above all motivated by a concern for *nation*.

It is true that the motivating forces behind both the importunities of civil society or the policy behaviour of the state may be difficult to ascertain. And there may be a degree of fuzziness, and on occasion overt hypocrisy, when there is a convenient coincidence of interest in nationalist policies (as when a group, class or even the state itself cloaks its parochial interests in a particular policy in the garb of nationalism). Despite the problems, however, motivation is critical for an understanding of the nature of economic nationalism. Ascertaining motivation allows us to distinguish between economic policies designed to protect and advance the nation qua nation (economic nationalism), policies designed first and foremost to protect and advance the interests of a particular group, class, region, or interest (protectionism), and policies designed primarily to enhance the power, the prerogatives or the revenue of the state itself (statism).

Conclusion

Economic nationalism, whether as an emotive ideal subjectively felt by an individual or as an ideological program of political action, cannot be divorced from the larger phenomenon of nationalism. If economic nationalism can be said to enjoy a separate analytical existence, it is in a primary emphasis on the importance to a nation's existence of a capacity for economic independence. In this, economic nationalists reject the assumptions of orthodox liberal theory that the constraint on autonomous action that comes with interdependence between nations is a reasonable price to pay for the benefit of freer exchange between sovereign political communities. They retain a fundamentally Fichtean skepticism about the impact on the nation of free economic exchange between nations and a fundamentally Fichtean desire for the limitation or regulation of economic links between nations.

Economic Nationalism in Canada: Assumptions and Arguments

Economic nationalism in Canada has a history as old as the nation itself. The debates in the British North American colonies on the issue of economic relations with the United States that predate Confederation contain the seeds of economic nationalism. Macdonald's National Policy was driven by the same desires that had prompted both the Meiji in Japan and Bismarck in Germany to embark on comparable policies. It was evident in the debates in the 1880s on the virtues of a customs union with the United States and during the election campaign in English Canada over the reciprocity treaty in 1911. It emerged in the late 1950s and remained a durable political issue throughout the 1960s and 1970s.

Successive generations of economic nationalists in Canada have shared philosophical roots with nationalists everywhere, in the sense that all have been motivated by a desire to see the nation maintain its separateness and its capacity for self-determination. But economic nationalism in Canada has been marked by both ideological heterogeneity and a number of dualisms.

First, economic nationalists in Canada have occupied a wide band of the political spectrum. One indication of this ideological heterogeneity is that both major parties have at various times in the nation's history embraced the tenets of economic nationalism. For many decades, the Conservative Party was the political locus of economic nationalism: the National Policy was Macdonald's legacy; the Conservatives emerged in 1911 as the opponents of reciprocity and closer economic integration with the United States; John Diefenbaker's nationalistic vision of the late 1950s and early 1960s was a later manifestation of the same orientation. If the Liberal Party under Laurier discovered the extent of concerns in English Canada about economic relations with Americans, and if the Liberals under Mackenzie King and C.D.Howe were prone to expanding economic linkages between the Canadian and American economies, prominent members of the Liberal Party in the 1960s and 1970s championed the economic nationalist cause. Walter Gordon, Eric Kierans and Herb Gray, among others, served in cabinets of this period. Certainly the four Liberal governments of Pierre Trudeau are tagged with introducing the most nationalistic economic policies since the National Policy — the Canada Development Corporation in 1971, the Foreign Investment Review Act in 1973–74, Petro-Canada in 1975, the cultural protectionist measures in Bill C-58 in 1976, and the National Energy Program in 1980 — although a case could be made that, given Trudeau's own attitude toward nationalism and statism, each of these measures was more properly statist than nationalist.

Another measure of the heterogeneity was the emergence in the late 1960s of what might be called a multipartisan economic nationalist

movement — the Committee for an Independent Canada. The CIC's membership embraced a group of Canadians with divergent ideological beliefs and often contending political agendas: those who wanted an independent capitalist Canada and those who sought an independent socialist Canada.

Second, two dualisms underwrite the economic nationalist literature in Canada. The first, and most important, is that there are contending definitions of "nation" within the literature. One is a fundamentally pan-Canadian view, most frequently espoused by those in the centre of the country, and overwhelmingly anglophone. The other major definition is predominantly francophone, and focusses on the existence of another nation within the Canadian state. Nationalists in Quebec have been no less prone than Canadian nationalists to focus on the economic factors inhibiting the achievement of the national ideal, whether within or outside Confederation, in French Canada (more recently, in Quebec alone).[21]

This duality is overlaid with another: the divergent foci of economic nationalists in Canada. The major concern of Quebec economic nationalists, particularly from the 1950s on, was the position of francophone Québécois in the Quebec economy and the dominance of that economy not only by anglophones in Quebec but also by economic interests outside the province, particularly economic interests in Toronto.[22] The major concerns of pan-Canadian economic nationalists have been twofold. First, there has been an abiding concern over the trading regime on the North American continent and the effects of closer trade with the United States. Second, there emerged in the late 1950s a concern that blossomed in the 1960s and faded in the 1970s about the degree and level of foreign (primarily U.S.) ownership of sectors of the Canadian economy.

Given the ideological, national and issue-oriented divergences and diversities, it is little surprise that there is no coherent Canadian economic nationalist "position." There are, however, commonalities of concern or argument that can be drawn from the extant literature. One can also draw from the literature the assumptions upon which economic nationalism in Canada is based: assumptions about the nature of nations and about the economic and political relations of national societies.

Assumptions about Nations

It bears reiterating that the assumptions of nationalists everywhere inform economic nationalism in Canada. It is assumed that, to be a nation, a society must have a separate, distinct and identifiable national culture that distinguishes it from all other national cultures, and must also have a capacity for self-determining decision-making to guard that distinctiveness.

Culture is here holistically defined, assumed to encompass more than a nation's common cultural attributes: its language, its social and familial institutions, its particular norms and mores, its accomplishments in the arts and letters, and its popular entertainments. Rather, to use George Grant's phrase, a nation's culture refers to its "way of life," which would include all elements of human activity — social, religious, athletic, cultural, political and economic.[23]

Likewise, it is assumed that a nation, if it is to be considered a nation, must have a government capable of independent behaviour. That is, the supreme authoritative decision-making of — and for — a nation must not be dependent on foreigners. Without these two attributes, the assumption of distinctness and independence suggests, a society may exist as a political entity but, as George Grant would have it, it will not be a nation.

Assumptions about Economic Relations between Nations

The second set of assumptions focusses on the economic relations between national societies and the effects of economic relations on nationhood. Two assumptions are integral to the writings of economic nationalists in Canada.

Economic linkages create integration. The first part of the argument is that the more developed economic linkages are between nations, the more likely these linkages will serve to integrate the connected units. In other words, transborder flows of capital, services, labour or goods between two nations create a web of interconnectedness and mutual sensitivity between the two economies, and, by often explicit implication, the two polities. This interconnectedness has two effects. First, as economic benefits from these linkages accrue to groups or individuals on both sides, it is assumed that the costs to the beneficiaries of altering these patterns of interconnectedness greatly increase. Second, the interconnectedness is integrative[24] in that the linkages — and their benefits — break down the distinctiveness and segregated nature of the units. The homogenization of economic interest between two segregated national groups inexorably brings with it a homogenization of political interest.

Integration destroys nationhood. Whatever economic benefits these linkages may provide, integration is always assumed to erode and eventually destroy indigenous national culture and national independence by homogenizing cultural, economic and political aspects of a nation's existence. Such integrative homogenization is not, however, symmetrical, the rhetoric of the interdependence of nations notwithstanding; rarely are the relations between large and small political communities equally and mutually dependent. Rather, the larger society, by its

very size, power and vitality, is assumed to be able to dominate, and then to engulf, the smaller nation's cultural attributes, its political autonomy and its economic life. In short, the smaller society, suffocated by the encroachments of its more powerful neighbour, is eventually drawn into the embrace of a formal or informal empire created by the larger nation. It loses its cultural distinctiveness, its political independence, and thus its very nationhood.[25]

These multifaceted assumptions underlie the economic nationalist argument about the effects on the Canadian polity of the extensive economic linkages between Canada and the United States — both American ownership of certain sectors of the Canadian economy and Canada's high dependence on trade with the United States. The effects of economic integration between the two countries fall into three broad categories: the structure and performance of the Canadian economy; the emergence of an indigenous national culture; and Canada's national independence and sovereignty.

Economic Effects

Economic linkages between Canada and the United States, it is asserted, have deleterious effects on the structure and performance of the Canadian economy. The focus of the arguments about economic effects of integration is in the main on the fact of direct foreign (primarily American) investment in Canada, and not on the dependence on trade with the United States that has grown over the years.

The establishment by foreign firms of subsidiary operations in Canada was the inexorable result of a tariff wall originally designed to promote the creation of infant industries in the new dominion. Most economic nationalists are willing to acknowledge that the influx of foreign investment produced enduring benefits in terms of levels of economic activity and employment, cheaper access to the products and technology developed in the United States, and the creation of a secondary manufacturing sector. But, according to many economic nationalists, the eventual costs, not only to the Canadian economy but to the nation itself, are so great that they outweigh the putative benefits of the increased economic activity and wealth brought by foreign investment.

A key argument is that a "branch-plant economy" leads inexorably to distortions in the Canadian economy. The focus is on the relationship between the parent corporation and its affiliate located in Canada. Branch plants, particularly wholly owned subsidiaries, are not independent entities, if only because the decision-making environment of branch-plant business is so tightly constrained by the parent. This subsidiary relationship has a number of important effects. The following are those most commented upon by economic nationalist writers.[26]

Entrepreneurship It is argued that the pervasiveness of subsidiaries, particularly in the secondary manufacturing sector, led to the decline of entrepreneurial spirit in Canada. The corporate elite who head the Canadian affiliates of foreign firms become little more than managerial officials who implement policy decisions taken in the boardrooms and offices of the parent. As Kari Levitt has put it,

> The decisions they [branch-plant executives] make are routine in the sense that they are constrained by budgetary allocation made at head office. . . . Every subsidiary is of necessity an instrument of its parent company. An economy composed of branch-plant industry must of necessity lack the self-generating force which characterizes successful entrepreneurship.[27]

Because nationalists aspire to the ideal of indigenous control over economic resources and structures, the existence of a successful entrepreneurial class is seen as critical to the achievement of Canadian economic independence: "If Canada is to regain control of her own economic environment through the establishment of new businesses, entrepreneurs will have to realize that commercial success is a product not only of the imagination, but of proper and consistent managerial practice."[28]

Research and Development The nature of the subsidiary-parent relationship has a severe and negative impact on the amount of research and development performed in Canada. Because the multinational corporation rationalizes its operations, it tends to concentrate R&D at head office. This is particularly true of those multinationals that are more properly "binational" — United States corporations that decide to establish subsidiaries in Canada to manufacture a range of product lines that have already been developed for the American market.

The result is fourfold: first, there has emerged a dependence on external sources of R&D that has direct financial costs in terms of fees for patents, licences and other technological transfer.[29] Second, the possibilities for the growth of an indigenous R&D capacity in Canada are limited, since R&D growth is constrained and kept underdeveloped by the very existence of branch-plant dissemination of foreign technological research and development.[30] Third, and related to this, opportunities for employment in the R&D field in Canada tend to be restricted, forcing Canadians wishing to pursue careers in this area to emigrate to the centre (i.e., the United States).[31] Finally, products marketed in Canada may have been designed for other markets with different environments and requirements, thus making Canada a "captive of foreign technology and the tastes or consequences that embodies."[32] In short, R&D expenditures have critical implications for Canadian economic independence.

Export Performance Because of the importance of export trade to the overall health of the Canadian economy, part of the economic nationalist argument has focussed on the degree to which branch plants of foreign corporations are constrained by the nature of their subservient relationship from engaging in vigorous export-oriented performance. Much of the argument concerns the costs to Canada of the export restrictions imposed by parents on their Canadian subsidiaries. Given the desire of the multinational corporation to rationalize the operations of its many parts, it is common for a parent to avoid competition in its own market, or the markets of subsidiaries in other countries, by insisting on restricting the export operations of its subsidiaries.

The 1972 Gray study concluded that while foreign control did not markedly affect the export performance of a firm, more than half of the 964 foreign-controlled subsidiaries had some market restriction placed on their export operations; more significantly, 31 percent of these firms were excluded from the United States market, the market of greatest importance to the health of the Canadian economy. The study concluded that the export performance of foreign-controlled subsidiaries was important first because of the danger that the trading of these affiliates might not always be in the Canadian interest, and second because there was evidence that "other governments appear to be exerting increasing pressures on foreign investors to locate export facilities in their territory . . . at Canada's expense."[33]

Miniature Replica Effects The protection afforded by the tariff has led to the creation of what H.E. English has termed the "miniature replica" effect on the Canadian economy: an inefficiency that is the result of "too many firms producing too many product lines at high unit cost."[34] The argument is not that foreign-controlled firms are by nature less (or more) efficient than Canadian firms, but that the branch-plant organization of the Canadian economy tends to encourage too many manufacturers of a product for the size of the Canadian market, at a substantially increased cost to Canadian consumers.

Other costs, it was claimed, came with the miniature replica: deindustrialization, and the attendant problems of dislocation and unemployment in a society where a large percentage of the population is employed in the service sector; sensitivity and vulnerability to investment decisions made by corporate parents which could have the effect of "exporting" unemployment to Canada; and finally, the truncation of the economy that discourages competitiveness — both within Canada and in the international marketplace.[35]

In sum, the thrust of the argument is that the economic linkages created by a large number of foreign-controlled subsidiary firms operating in the Canadian economy have negative effects *economically*. In other words, the economic costs to Canadians of these linkages are not

insubstantial. More importantly, however, the effects of high levels of American ownership and control of Canadian resources and means of production have implications for the nation and its ability to achieve the nationalist ideal, as we will discuss below.

Cultural Effects

Among the economic nationalist concerns is the argument that the branch-plant structure of the Canadian economy also has significant, and deleterious, effects on the development of a distinctive and indigenous Canadian national culture. Two elements — a branch-plant mentality and the process of Americanization — are seen to inhibit the nation's ability to give expression to its separateness and distinctiveness.

The Branch-Plant Mentality A number of writers, from the left as well as from the centre, refer to the mentality (or, more properly, attitudes and values) that comes with a truncated economy, and the effects that such values have on the existence of "nation." The position was put most baldly by George Grant in the early 1960s:

> Once it was decided that Canada was to be a branch-plant society of American capitalism, the issue of Canadian nationalism had been settled. . . . The society produced by such policies [of economic integration with the United States] may reap enormous benefits, but it will not be a nation. Its culture will become the empire's to which it belongs. Branch-plant economies have branch-plant cultures.[36]

The Gray study concluded in a not dissimilar vein:

> Truncation also tends to engender a mentality of second best, with horizons and vision constantly centred on headquarters abroad. It represents a continuation of the colonial mentality.[37]

The mentality, it is argued, is marked by a continuing propensity of those in Canada (or, in the argot, the hinterland or the periphery) to look to the metropolis or centre (either Britain or France in the past or the United States in the present era) for standards of excellence in all fields of human endeavour. In short, the branch-plant mentality encourages derivation and, by implication, dampens national innovation and the emergence of a distinctive and separate national mentality that does not have to look elsewhere to set its standards of excellence.

Americanization The phenomenon of Americanization in the post-war world generally refers, at its simplest, to an asymmetrical homogenization and integration of cultural attributes of other nationalities with those of Americans. For Canadians, two-thirds of whom speak the

lingua franca of the United States, 90 percent of whom live within 300 kilometres of the Canada–United States border, the fact of the Americanization of Canada is obvious. However, both the cause and effect of this condition are of great interest to economic nationalists; the literature commonly links the increasing Americanization of Canadian culture to the economic linkages between the two nations. Economic and cultural penetration of Canadian society by American interests go very much hand in hand. American subsidiaries operating in Canada bring with them not only Americanizing products, but also American branch-plant managers, whose cultural tastes allegedly affect the Canadian environment.

More importantly, the same penetration of the market in manufactured goods applies in cultural goods, services and individuals — entertainment (popular music, film, television, publishing), information (newsmagazines, television news, wire services), pedagogy (textbooks, ideas and teachers, particularly at the university level), and sports (the continentalization of most major spectator sports). In the more extreme nationalist argument, the "domination" of all of these fields by Americans represents both the means and the end of American "imperial" control.[38] In the more moderate perspective, the economic linkages between the two countries encourage and accelerate the processes of Americanization and thus either prevent or at best inhibit the growth in Canada of a distinctive and indigenous national culture.

Political Effects

The economic linkages with the United States and the Americanization of Canada's culture by interests in the United States converge in the final set of consequences: the argument that economic linkages impinge on Canadian sovereignty and independence. To be sure, the finesse with which this part of the argument is put varies widely. On the one hand, there are the crude characterizations in some of the literature of neo-colonialism that cast Canadian political and corporate elites as pawns of those who are taking the "real" decisions about the Canadian nation outside the borders of the country. In this view, the state in Canada and Canadian assertions of "independence" and "sovereignty" are merely elaborate chimeras created by elites in Canada on behalf of those who exercise imperial control — the means by which corporate America extends its "informal" or "invisible" empire.[39]

On the other hand, more careful analyses focus on the ways in which the fact of Canadian economic linkages with the United States serves to diminish the realities of Canadian political sovereignty and independence.

Sovereignty The most important of these ways is the application by the United States government of American law to United States citizens (corporate or private) beyond the formal jurisdictional boundaries of the United States. There can be little doubt that "extraterritoriality," as it was applied to the states of Asia in the 19th century, for example, and as it is applied by the United States in the 20th, represents a challenge to the formal state sovereignty so valued by nationalists as the key symbol of national independence. For sovereignty demands, inter alia, that the highest authority within a given territory rests with the government of that state; any attempt to impose an external authority must ipso facto violate the ideal of sovereignty.

The economic nationalist argument points to the existence of the Trading with the Enemy Act and various pieces of antitrust legislation and an obvious willingness of the agencies of the U.S. government to prosecute its citizens (wherever located) for violation of these domestic laws. The issue of the sale of trucks to China in the late 1950s features prominently in the nationalist arguments, but the exact details of this landmark and ubiquitous case remained cloaked in the secrecy required by the 30-year rule. Nonetheless, the argument is that the willingness of the United States government to invoke its laws beyond its territorial jurisdiction has probably led to the application of the "rule of anticipated reaction" on the part of subsidiaries located in Canada, reducing potential export sales as a result.

In some instances — the sale of locomotives or office furniture to Cuba in the mid-1970s, for example — the available evidence would suggest that the United States government has been willing to bow to protests by the Canadian government. But if a succession of administrations in Washington has granted ad hoc exemptions to the application of United States legislation to American nationals residing in Canada, the nationalist continues to object to the need for a sovereign government to assert that sovereignty by having to plead for exemptions.[40]

Independence The other general argument is that Canadian independence is sharply lessened by economic linkages with the United States. In his survey of Canadian nationalist "schools of protest," Denis Stairs characterizes this as "diplomatic penetration,"[41] though the argument usually went well beyond the notion that a bureaucratic elite in Ottawa had been co-opted by their counterparts in the United States. Rather, the objection is that Canada's economic linkages with the United States meant that the Canadian government could not take independent initiatives in policy. Usually, it should be noted, this argument was made with regard to foreign policy; in an historical context, "independent" initiatives often meant distancing the Canadian government publicly from the United States with regard to the war in Vietnam or recognizing

the People's Republic of China. In other instances, independence meant the ability to declare Canada a neutralist or nonaligned state and to withdraw from its military commitments to the North Atlantic Treaty Organization and to the United States under the North American Air Defence (NORAD) agreement.[42]

More widely construed, however, the argument held that Canadian opportunities to adopt policies that were designed to enhance a national distinctiveness, or to encourage self-determination, or simply to be different from the policies of the United States, were becoming exceedingly limited and constrained. The costs of pursuing independent alternatives to the status quo have grown to be too great for most Canadians (and their governments) to contemplate. As Levitt put it, "dependence is addictive and the dynamics of dependence are cumulative."[43] Some of the larger costs involve the ability (and the willingness) of the United States government to protect its continental interests. Because of the growth of economic integration, independent domestic and foreign initiatives will, after the passage of time, inevitably affect American interests in Canada, and there remains the persistent possibility of retaliation — either by American private interests, or by the government in Washington on behalf of its (corporate) citizens and their interests. In sum, national independence, it was asserted, is increasingly eroded because of Canadian dependence on the United States.

Trade and the Nation

It should be noted that the *problematique* of much of the contemporary economic nationalist literature is fixed on American investment in Canada. The effects on the Canadian nation of trade relations with the United States, and particularly the dependence on transborder flows of goods and vulnerability to shifts in United States policy, was not a major focus of the contemporary economic nationalist literature. An important exception is the response of the Trudeau government to the imposition of the 10 percent surcharge on imports by the Nixon administration in August 1971, and the failure of the Canadian government to secure an immediate exemption from the Nixon "shocks." This prompted a severe reassessment within the state (and the Department of External Affairs in particular) of Canada's general relations — and particularly the trading relationship — with the United States.

The result was the publication of a ministerial statement in 1972, generally known as the "options" paper, and the explicit endorsement by the Trudeau government of the Third Option.[44] But if both the focus of the options paper and the policy initiatives that flowed from the Third Option diverged from the dominant concerns that were at the time being expressed about investment, the options paper itself reflected a distinct economic nationalism. Invoking memories of 1911, it posited the dangers

to the independence, if not the very existence, of the Canadian nation of closer economic integration with the United States. Its analysis mirrored the assumptions of economic nationalists concerned about levels of foreign investment. And in its explicit and unambiguous rejection of further economic integration with the United States, it made the same linkage between private economic decisions and public outcomes — that closer economic integration would have adverse effects on the nation.

Conclusions

Much of the Canadian economic nationalist literature is polemical, in the sense that most writings are intended as a critique of existing economic policy. For the most part, the literature contains distinct political advocacies for changes in public policy, from proposals for the creation of state agencies to regulate foreign investment to the passage of legislation to combat extraterritoriality, to the state's own advocacy in the Third Option of a shift in traditional trading, investment and ownership patterns that formed the framework for many of the initiatives in the 1970s that would be thought of as "economic nationalist" in motivation.

In a fundamental way, however, the different arguments of Canadian economic nationalists are underwritten by a common desire: that the nation (however construed) be able to enjoy distinctness and autonomy as a political, economic and cultural unit. They attempt to demonstrate how the cumulative private economic decisions of both Canadians and Americans, and the public decisions of their governments, have affected the evolution of the Canadian nation; how economic decisions inhibit the national ideal, and how the custodian of the nation's existence — the state — could enhance its capacity to strengthen the nation.

The Integrationist Position: Assumptions and Arguments

Economic nationalists argue that economic integration between Canada and the United States — high levels of American investment in and ownership of sectors of the Canadian economy, and Canada's high degree of trade dependence on the United States — are inimical to the interests of the nation because they prevent, or at the very least inhibit, the achievement of the national ideal. On the other side of the debate about the effects of economic linkages on the nation are the integrationists, so called for reasons outlined in the introduction. The integrationist position is neither ideologically nor analytically homogeneous, though it derives some coherence from its political advocacy of closer economic relations with the United States and from its common rejection of the assumptions and many of the arguments of the economic

nationalists. However, it should be reiterated that, for the reasons outlined in the introduction, there is no presumption that such a rejection constitutes anti-nationalism, cosmopolitanism, or continentalism.

Like the economic nationalists, the integrationists employ a set of related assumptions about nation and economic linkages in their reactions to the economic nationalist argument.

Assumptions about Nations

Integrationists make a number of assumptions about the nature of nationalism as a paradigm to guide political action. The first assumption may appear trivial: that the position of the economic nationalists is based on little more than "emotionalism."[45] Such an assumption is, however, not unimportant — for two reasons. First, since integrationists are no less involved in political advocacy than the economic nationalists, the use of the term emotionalism must be seen as a potent forensic device. In an age of reason, emotionalism is a fundamentally dismissive notion, and by painting nationalist arguments in such colours, one taints them more easily.

Second, the assumption that the nationalist position is mere emotionalism represents a misunderstanding of the necessary nature of nation and nationalism. As I argued in the introduction, "nation" must of necessity be grounded in an individual's *emotional* response to community at a particular level. Moreover, nationalists, as proponents of an emotive ideology, are not always propelled by rational economic self-interest or by materialism, as some economists — such as Harry Johnson — think they should be. As Albert Breton argued a generation ago, nationalism involves the nonrational (in economic terms); individuals will tend to define the uneconomic costs associated with nationalism as "psychic investment" in the future of the nation.[46]

The second, more substantive, assumption integrationists make about nation is that the nationalist model employed by the economic nationalists is obsolete and atavistic, belonging more properly to the 19th century when the processes of industrialization had not reached the level of development seen in the second half of the 20th century. The 19th-century model — marked by protection of infant industries, creation of import substitution, and reduction of trade by the use of tariffs — hinges on accepting the notion of autarky as the primary means of protecting and advancing the interests of the nation. Taken to their logical conclusion, these related strategies will in fact create the Fichtean ideal of autarky, where the nation is not dependent on others and thus is able to be truly self-determining.

By contrast, the integrationist position is that economic autarky is impossible in the contemporary international economic system in three senses. First, it is impossible in the sense that given the complex web of

linkages between industrialized societies that has developed in the 20th century, national autarky can only be obtained at huge costs, both political and economic, to the nation. Second, it is impossible because few individuals — at least in developed capitalist societies — want autarky, and few governments have the power (even if they might conceivably have the desire) to impose the kind of costs that autarky would entail on civil society. Finally, it is impossible in the sense that the achievement of autarky depends on the willingness of other states, primarily the superpowers, to acquiesce. Clearly, the willingness of the great powers to tolerate the autarky of smaller states on their peripheries would depend upon definitions of *their* interests, not the interests of the would-be autarky.

Instead, the integrationist assumes that the contemporary international economic system is characterized by a necessary and inevitable economic interdependence of industrialized societies. Trade in consumer goods and services, movements of capital and people, linkages between families and associations, communication of ideas and values across national borders, all contribute to a growing interdependence between the states of the industrial North. Penetration and integration are inevitable consequences of these linkages between states, the costs of which are acceptable because of the benefits brought by interdependence. And interdependence has necessary implications for models of nationalism; baldly put, the autarkical ideal of the 19th-century model of nationalism is simply irrelevant to the necessary interdependence of the 20th century.

Assumptions about Economic Relations Between Nations

A further assumption accompanies an acceptance of interdependence in relations between nations in the 20th century: the economic integration that is created by interdependence does not pose a significant problem for the achievement of the national ideal of self-determination. The movement of goods, capital and technology across national borders is assumed to occur essentially apolitically, in the sense that there are few adverse implications for the nation of such purely economic transactions. As Harry Johnson put it:

> With respect to the threat to national identity, the nationalist usually points to the consumption of American goods and the practice of the American standard of life in Canada. . . . This is not a convincing argument, especially to an economist. What the nationalist sees as a "penetration" of Canada by the United States, the economist sees as an expression of the preferences of an opulent society.[47]

In short, unlike the nationalist, the integrationist makes the assumption that one can differentiate between what occurs in the economic sphere

and what occurs in the political sphere. The notion of the economic nationalist that the political aspects of the existence of a nation qua nation can be affected by economic structures is, by and large, rejected in the integrationist perspective.

Such a rejection is most clearly demonstrated by the common assertion in the integrationist literature that the richer a nation is, the more able it is to afford political independence. Johnson argued in 1960 that:

> I cannot see how a country can lose its independence by growing richer and richer through profitable foreign trade; on the contrary, growing wealth gives both an increasing capacity for individual self-fulfillment and the resources necessary for the achievement of national objectives.[48]

A decade and a half later, Peyton Lyon was to echo this assumption. He suggested that "a wealthier Canada could afford a more active and distinctive foreign policy and thus offset any image it might have as an economic satellite [of the United States]."[49] Similarly, the Economic Council of Canada concluded that "the economic gains derived from Canada–U.S. free trade would mean a major expansion of the base on which a viable Canadian economic independence must be built."[50] In other words, the integrationist argument posits an interesting paradox: closer integration, assuming it brings added economic benefits to Canada, would allow Canadians to be more nationalistic, not less, since the wealth would in essence provide the "capital" for Breton's "psychic investment" in the nation.

These assumptions underwrite the integrationist argument,[51] which, stated briefly, is that economic integration is in the interests of Canada as a nation and should be actively pursued, and that economic integration with the United States will not have a negative impact on Canadian autonomy.

The first part of the integrationist position focusses on the costs to Canada of the 19th century nationalist model and the benefits of abandoning that model. In essence, the argument hinges on the tariff which was originally erected to protect Canada's infant industries, and which was, inter alia, responsible for the growth of an inefficient branch-plant economy in Canada. The costs of maintaining a protective tariff are great, in the integrationist perspective. First, the tariff promotes a secondary manufacturing sector that is less than efficient by encouraging protection from exposure to competitive international market forces, thus benefiting only those who own the protected industries or those who are employed in them. Second, a protective policy encourages the maintenance of the branch-plant organization of the manufacturing sector, with the added costs and the added problems of managerial and R&D skills in the Canadian workforce. Third, artificial barriers created for nationalist purposes encourage comparable policies in the United States (though American policies tend to be driven by protectionism and not

economic nationalism). Thus the tariff serves ultimately to reduce the access of Canadian manufacturers to their largest, best, and therefore most profitable market. Finally, the tariff discourages industrial restructuring in Canada that would keep the Canadian economy competitively productive with other industrialized and industrializing economies, notably those of the United States, Europe, Japan and the newly industrializing countries (the NICs).

By contrast, the putative benefits of reducing barriers between the two economies are, in the integrationist argument, numerous. Adopting "free trade" (via a free trade area), "freer trade,"[52] or "sectoral free trade" would result in greater economic growth in Canada, as less constrained market forces would force Canada's secondary manufacturing industry to rationalize and would make it more competitive and more productive; the real income of Canadians would rise as the volume of trade with the United States rose, and as prices of American products sold in Canada fell. Moreover, as a member of a bilateral free trade area, Canada would have a greater say in United States economic policy making, thus avoiding the problems encountered, for example, during the Nixon shocks of August 1971. Non-tariff barriers to trade — particularly United States policies on countervail and procurement — would be easier to negotiate with the United States within a continental free trade area, since the United States government (including, it is assumed, Congress) would have a greater incentive to treat these barriers within a continental rather than a national framework. In short, many of the economic problems faced by the Canadian economy in the current period — structural unemployment, de-industrialization, subsidized inefficiency, lack of competitiveness and poor productivity — would be largely alleviated.

The second part of the argument centres on what the Senate Standing Committee on Foreign Affairs termed the "ancient fallacy" that greater economic integration with the United States would mean "an erosion of Canadian sovereignty or eventual political integration.[53] The argument has two parts. First, it consists of an attempt to demonstrate that economic integration between nations has not inevitably led to political integration or political union. Peyton Lyon in particular uses all the available cases of interstate economic integrative agreements to demonstrate that in not one case did the free trade area result in political union or absorption. (Professor Lyon's conclusions feature prominently in both the Economic Council of Canada's conclusions and the arguments of the Senate Standing Committee on Foreign Affairs.)

Second, it consists of the assertion, discussed above, that a wealthier Canada would be better able to assert its independence and sovereignty. With a more rationalized, competitive and productive manufacturing sector, and an ever-increasing real income, the Canadian people and their government could, it is argued, better "afford" the measures

required for the maintenance of the nation's independence and sovereignty. With increased resources, the Canadian government could devote expanding resources to promoting the national distinctiveness that is so much part of the nationalist ideal. The nation's autonomy, which at present is limited by interdependence, would at least not be reduced by economic integration, and would likely be increased. Thus, Lyon concludes, a Canada–United States free trade area (CUFTA) "would increase Canada's capacity to develop its own way. Therefore, assuming we were confident that a CUFTA would yield substantial material gains, we would be unwise to oppose it on the doubtful grounds that it might reduce Canadian autonomy. . . ."[54]

Conclusions

It is important to note that the integrationist perspective, with its fundamental rejection of the assumptions, analyses and advocacies of the economic nationalists, is paradoxically driven by the same concern for nation that underwrites the economic nationalist position. The arguments and advocacies of integrationist writers demonstrate a commitment to strengthening the nation as a political community, and to seeing it prosper in both a material and spiritual sense. The subjective attributes of nationalism outlined in the introduction of this paper would apply with equal force to both the integrationist literature and the economic nationalist literature. Because of its commitment to nation, the integrationist position is neither continentalist (as that term is understood in the context of Canadian politics) nor anti-nationalist.

But the integrationist perspective, while it may be motivated by concerns for nation, is not merely a variation of traditional economic nationalism. First, integrationism focusses on different policy instruments as means to national ends, with distinctly divergent political advocacies. Thus, it is not coincidental that, in many respects, the economic nationalists and the integrationists often appear to talk past each other in the literature. For the economic nationalist's main concern is the degree of American ownership of the economy; for the integrationist it is Canada's trading relationship with the United States. Second, integrationism embraces very different values about, and objectives for, the national community. It is to an examination of these differences that we now turn.

Conclusion: Assessment and Policy Implications

The assumptions, arguments and advocacies of the integrationists are almost completely at odds with those of the economic nationalists. Where nationalists see national distinctiveness and economic self-deter-

mination, integrationists see parochialism and atavism; where nationalists see penetration, integrationists see apolitical market forces; where nationalists see domination and dependence, integrationists see interdependence. Where nationalists assume that the size and power of the United States economy pose a threat to the existence of the Canadian nation, integrationists assume no basic threat to the independent existence of Canada. In short, it is little surprise that the two groups, employing such fundamentally different assumptions, come to such radically different conclusions about policies for economic integration on the North American continent. The purpose of this concluding section is to offer a brief assessment of the divergent views offered by both groups. The assessment falls into three parts: first, an attempt is made to assess the arguments offered by each side; secondly, it examines the assumptions made by each side; and, finally, it suggests the policy implications that can be drawn from an examination of economic nationalism and integrationism.

The Arguments

The purpose of this section is to assess the arguments posited by the economic nationalists and by the integrationists as a guide for policy choice. In other words, how convincing are the arguments advanced by each side?

The Economic Nationalist Position For their part, economic nationalists provide a great deal of factual and statistical information about the nature of the American presence — economic and cultural — in Canada, even though, as A.E. Safarian notes, their use of statistical evidence tends at times to be selective and misleading.[55] Economic nationalists can with ease cite trade dependencies and vulnerabilities which restrict and constrain Canadian autonomy. They can demonstrate that the nationalist ideal of indigenous control of the factors of production is not close to being achieved by pointing to the number of Canadian firms and the percentage of Canadian resources controlled by aliens, or the percentage of a particular economic sector owned or controlled by foreigners. The economic nationalist argument shows the degree of restriction placed upon subsidiaries located in Canada and the effects this has on Canada's export performance.

The economic nationalist can point to the Americanization of Canadian society's culture and leisure activities. And they can rightly conclude that the forces of an unregulated market are responsible for such an allocation of values and resources: in spectator sports, in the dominance of American films and TV shows for which Canadians persistently and vehemently show a preference, or in the number of United States citizens who are professors in Canadian universities. These are the

consequences of individual preferences and economic decisions within the context of an essentially continental market.

Economic nationalists can likewise demonstrate the direct political effects of economic integration. They can show that the United States government has been willing to violate Canadian sovereignty by extraterritorial application of its laws; more importantly, the government in Ottawa has over the years been unwilling to incur the political costs of confronting this thorny problem head-on. And, as the United States government's behaviour on the questions of Bill C-58 in 1976 and of the National Energy Program in 1980 shows, the United States government is more than willing to protect its parochial interests against Canadian domestic initiatives. Economic nationalists can likewise point to those instances where the Canadian government has not taken actions in foreign policy "independent" of the administration in Washington, even when Ottawa's preferences were for a different course of action.

In short, the economic nationalist position is not wanting for evidence that many elements of the nationalist ideal have not been attained in a Canadian context. Control over the economic life of the nation is not entirely indigenous; Canada's economic fortunes are dependent on and vulnerable to economic performance elsewhere in the international system, notably in the United States. Popular culture (as opposed to the elite culture nurtured and supported by the state) is not, as in the nationalist ideal, distinctive, but instead has been homogenized by the relatively unrestricted transborder movement of books, periodicals, and television and radio signals, and by the continentalization of major entertainment media, from movies to spectator sports. And while the Canadian nation has achieved one critical measure of self-determination — sovereign government — the Canadian state has allowed that sovereignty to be periodically pierced. Moreover, the autonomy of the nation and the state in Canada on numerous public issues from monetary policy to foreign policy continues to be constrained by economic linkages to the United States.

Thus, the economic nationalist argument rests on a well documented base; but what logical conclusions may be drawn from the undeniable fact of the American presence in Canada? Can we conclude that the economic integration documented so well in the economic nationalist literature implies a diminution and a weakening of nation? I will argue that the argument is both convincing and unconvincing. In two respects, the economic nationalist argument is unconvincing in that one cannot, from the evidence presented, logically conclude that the national ideal is threatened by present or increased levels of economic integration with the United States. However, the argument is more convincing on a third issue — the question of national autonomy.

First, does the evidence show the lack of cultural distinctiveness and, as George Grant suggests, the necessary end of the Canadian nation?[56]

If we accept his assertion that for a nation to be a nation, it must possess an *objectively* distinctive culture, and that culture must of necessity be one different from the universal and pervasive 20th-century technological culture of American capitalism, then there is little doubt that there is no longer a Canadian nation any more than there is a French, British or Japanese nation. But if we posit a more conventional definition of nation, one which is more *subjective*, it is clear that the Canadian nation continues to exist where it matters most: in the minds of Canadians themselves. Concerns about the Americanization of Canada are by no means new:[57] they can be traced back at least to the writings of Goldwin Smith in the 1870s. But the Americanized consumer preferences of Canadians over the years do not appear to have weakened in any way their continuing sense of nation or reduced the propensity to identify with nation.

Second, besides distinctiveness, nationalists value self-determination. To what extent does the economic nationalist position demonstrate that economic linkages diminish Canadian self-determination? There is insufficient evidence to enable one to conclude that economic integration has diminished Canadian sovereignty or independence. To be sure, every time the government in Ottawa acquiesces to an application of extraterritoriality by the United States government, the formal legalisms of state sovereignty are infringed. But there is no evidence put forward to indicate that the United States does not recognize Canadian sovereignty. (Its reactions to Canadian protests suggest that it is well aware that it is infringing upon the authority of another sovereign state.) Nor is there evidence offered to show that Canada does not have an independent and indigenous state apparatus that makes authoritative decisions for the polity.

Third, nationalists value the ability of a nation to be autonomous, and the Canadian economic nationalist argument stresses the constraints on Canadian autonomy created by economic linkages. It is on this question that the economic nationalist argument is most convincing, for the cumulative effects of trade and investment patterns have indeed placed considerable constraints on the achievement of Canadian autonomy in numerous domains by creating patterns of dependence on the economic relationship with the United States.

Dependence refers to a relationship between two parties in which the costs to one party of altering that relationship grow too high to make alteration acceptable. The use of dependence in this context differs considerably from the usage of *dependencia* theory,[58] where the condition of dependence is in essence forced on one party by the other. In a Canadian context, dependence must be seen as self-generated; in other words, the argument is not that one holds the object of dependence — the United States — responsible for the condition. Thus it is not that Canadians — or the state in Canada — are incapable of changing this

condition, but that they are constrained from doing so by the high costs of altering their relationship with the United States. Consider, for example, the debate over monetary policy in the first half of the 1980s: the interest rate set by the Bank of Canada had to follow rates being set by the Federal Reserve Bank in Washington, not because the federal government in Ottawa preferred high interest rates nor because the government could not devise its own made-in-Canada interest rate, but because the costs of another course in monetary policy would have been higher than the majority of Canadians would want to bear.

In this case, as in other cases of the state's incapacity to have policy accord with preferences, the constraints on Canadian autonomy become obvious and palpable, and can be traced to the existing economic linkages between the two countries, as indeed the economic nationalists argue.

The Integrationist Argument The integrationist position, and particularly its advocacy of closer economic links with the United States through a change in the trading regime between the two countries, is marked by a certain logic, but, as I shall argue, is at bottom an unconvincing argument.

The logic of the integrationist perspective is that of orthodox liberal economic theory and of historical experience. Liberal economic theory posits a fundamentally apolitical view of transborder movements of capital and an abiding belief in the efficacy of the market to allocate resources efficiently and rationally. This logic underwrites all proposals for closer economic integration with the United States, and the logic dictates that many Canadians (but by no means all Canadians; there would be a period of admitted dislocation for some) would be "better off" if decisions were taken by the state to increase economic linkages with the United States. The logic of historical experience suggests that the past is a reasonable guide to the future; despite the increasing economic integration between the United States and Canada experienced over the course of the 20th century, the Canadian nation has not disappeared.

But the integrationist perspective, for all the logic of liberal economic theory, and for all of its implicit appeal to the historical record, is in the last resort unconvincing. The integrationist is unable to demonstrate that what the Senate committee called the "deep-seated fear of an erosion of Canadian sovereignty or eventual political integration" is groundless. The only firm evidence available is the experience in other cases; Peyton Lyon, the Economic Council of Canada and the Senate committee thus fix their sights on other free trade areas. But this is hardly convincing: the economic, cultural, familial, and other linkages between Canada and the United States are so numerous, developed, and complex, and the interdependence between the two states so enmesh-

ing, that the relationship is truly unique in the international system; that is, it is not reproducible. Therefore, one learns very little from other "disparate dyads," such as Ireland and Britain or New Zealand and Australia, that can usefully be applied to the Canadian-American case.

And the integrationist position will remain unconvincing because it is indeed impossible to demonstrate that the deep-seated fears of Canadians are based on ill-founded "emotionalism." No one has found a way to show conclusively that benefits *will* flow from free trade; that the state in Canada *will* be able to cope with the dislocation effects that may (or may not) occur with a change from the status quo; that in the joint management of a free trade area, the Canadian government *will* be able to maintain maximum independence. Most importantly, those who urge closer economic integration with the United States are unable to show that, in the long term, a future generation of Canadians *will not* find themselves so integrated into the American economy that it will make more political sense to submerge their national identity within some form of continental federalism.

In short, the integrationist argument is caught in an impossible dilemma: no one can provide conclusive evidence that closer economic integration *will not* spell the end of the nation in the future and yet, regardless of the unreasonableness of such a demand, economic nationalists will insist on that kind of conclusive evidence before accepting the integrationist advocacy that requires them to gamble the future of the nation on the putative benefits implied by liberal economic theory.

Autonomy and Assumptions about Nation

Underlying these arguments are two key differences hinged on divergent understandings of self-determination and of the importance of the future of the nation.

Self-Determination As I indicated in the introductory section on the nature of nationalism, the traditional model stresses the ability to make authoritative decisions for the nation indigenously, independently but also autonomously — the ability to have the nation's actions accord with its preferences. This traditional concern with autonomy was implicit in the writings of Canadian economic nationalists; they recognized — and were concerned about — the constraints and imperatives placed on Canada's freedom of manoeuvre.

By contrast, the integrationist perspective implicitly excludes the achievement of autonomy as a necessary condition for national self-determination. The nation is assumed to be able to survive and flourish as long as it has the means to make authoritative decisions indigenously and independently (i.e., it has a sovereign state apparatus). To be sure, autonomous decision making may be part of the integrationists' national

ideal, in the sense that they would be inclined to agree that the nation should strive for the achievement of maximum autonomy. But the integrationist is prepared to accept constraints on a sovereign nation's ability to have its actions correspond with its preferences as the natural costs of interdependence that comes with economic integration. In short, constraints on national autonomy do not in any way have a deleterious effect on the strength of the nation.

In this respect, the two models of nationalism are fundamentally incompatible when applied to the Canadian-American case. On the one hand, those who favour closer economic linkages between Canada and the United States are satisfied that Canada *is* self-determining, within the constraints imposed by interdependence. They do not worry about the costs of autonomy, believing such costs will be offset by the material gains derived from further interdependence.

On the other hand, what drives economic nationalism is the cognitive dissonance of wanting the nation to be self-determining in *every* respect yet seeing the dependencies, vulnerabilities, sensitivities, constraints and imperatives that come with economic, cultural, strategic and geographic linkages. The lack of autonomy to fashion distinctive and independent policies unfettered by the constraints of interdependence is a source of profound psychological discomfort to the nationalist, who must contend with the gap between the nationalist ideal and the realities of interdependence.

The "Future" of the Nation Just as integrationists and economic nationalists diverge on an understanding of self-determination, so too do they hold incompatible views on the future consequences for the nation of contemporary decisions. Integrationists do not worry about the future of the nation. For some, such unconcern is grounded in the belief that the nation will become stronger as it becomes wealthier, and thus more likely to survive. In others, such as Harry Johnson, it stems from an essentially normative view that present generations of Canadians have no right to make decisions for generations of Canadians yet unborn. This position holds that if at some juncture in the future Canadians were to decide to end the national experiment, that would be *their* right.

By contrast, nationalists refuse to be unconcerned about the nation's posterity. Part of the essence of nationalism is a shared belief that the nation (as conceived by nationals *in the present*) will have a happy and secure future. That is why the uncertainty of the long-term future effects on the nation of either present levels of economic linkage or the effects of greater integration is so emotionally inconsistent with that key element. In a very real sense, the 20th-century economic nationalist in Canada is unabashedly the self-appointed guardian for future generations of nationals.

Policy Implications

The divergent assumptions, arguments and advocacies about nation outlined in this paper have appeared — albeit in different guises, with different objects and using different language — at several junctures in the history of Canada. It is true that the problems of economic policy in the mid-1980s bear little resemblance to the issues of earlier times; it is true that many of the issues addressed in the economic nationalist literature have disappeared from the contemporary policy agenda. And it is true that the agenda itself has changed dramatically, even in the last two decades. In the 1960s, for example, the economic nationalists were on the offensive, advocating changes in public policy, shaping the direction of political debate; the integrationists were relegated to an essentially reactive position, defending the status quo. In the 1980s, by contrast, it is the integrationist advocacy of closer economic links with the United States that is dominating the agenda; the economic nationalist movement, having achieved many of its goals in the 1970s, has not (yet) re-emerged to counter the implicit challenge to the economic nationalist values contained in the contemporary integrationist advocacy.

For all these changes, however, the ideas about nation that will underwrite political decisions on the question of Canada's economic relationship with the United States in the contemporary period have not changed substantially. It is for that reason that the contending ideas about nation outlined in this paper have an enduring relevance for political choice in the 1980s.

Decisions about the future of Canada's economic relations with the United States will have to hinge on the choice of the most appropriate model of nation to guide political action. And while each model provides a relatively clear guide to general policy directions, the choice between them is marked by an inherent uncertainty.

First, the choice is uncertain because the incompatibility between the two sides cannot be reconciled; the views of both are underwritten by beliefs unlikely to be shifted by the kind of factual evidence available to policy makers. Thus integrationists are unlikely to be convinced that the high costs of national autonomy in an interdependent world are worth the benefits; they are unlikely to be convinced that the economic distortions and dependencies that have developed as a result of Canadian-American economic linkages are normatively bad when offset by the economic benefits brought by economic integration; and they are unlikely to be convinced that some form of closer economic integration with the United States will be a threat to the existence of the Canadian nation. Economic nationalists, for their part, will not be persuaded that the constraints on Canadian autonomy are not inimical to the interests of the nation, that the material benefits gained from economic linkages outweigh the spiritual costs to the nation, or that closer economic integration will not eventually spell the end of nation.

Second, the choice is uncertain because the arguments about the effects of economic integration *on the achievement of the nationalist ideal* put forward by proponents of each side are not altogether convincing. The integrationist perspective demands an act of faith — faith in the logic of orthodox liberal economic theory and in the ability of the Canadian state to maintain the separateness of the Canadian nation in the face of a radically changed continental environment. Likewise, however, the economic nationalist argument that the very existence of the nation is threatened by present or expanded levels of economic integration demands a narrow Grantian definition of nation to be convincing.

Only on the question of autonomy is the economic nationalist position convincing. The argument demonstrates clearly and unambiguously that the Canadian nation's ability to have its behaviour correspond with its preferences is considerably constrained by its economic dependence on the United States in particular and the international economic system in general. Even here, though, the degree of conviction will ultimately depend on the value placed on autonomy.

Finally, the choice is uncertain because of another intangible not unimportant in a polity which demands that the state be accountable to civil society for public decisions. Which model of nationalism will be implicitly employed by Canadians in general when they are confronted with the choice about the future direction of Canadian-American economic relations?

On the one hand, it is possible that faced with proposals for changes in the historical economic relationship with their southern neighbour, Canadians may indeed agree with Harry Johnson's assumption that "policy is made with the head and not with the liver" and embrace the direction being advocated by the integrationists. On the other hand, history suggests that not only have Canadians traditionally adhered to a 19th-century form of nationalism, but that the "liver" has played an important part in determining policy preferences. The defeat of Laurier's Liberals at the polls in 1911, Mackenzie King's feelings about Canadian views on free trade in the late 1940s, the popularity of Diefenbaker's nationalistic vision in the late 1950s, and the popularity of Trudeau's economic nationalist initiatives in the 1970s, all suggest that Canadians, when offered the choice, are prone to embrace a definition of nation in which either an overt antagonism or at least a healthy skepticism toward the United States has figured prominently. Moreover, it is a definition of nation in which autonomy is highly valued.

Conclusions

Canada's economic relationship with the United States has been and will always be a politically charged issue in Canadian politics. In part, this is

because the material interests of a large number of Canadians are so directly affected by transborder economic exchanges that comprise so much of the relationship. In part, it is because the Canadian nation-state qua political community is so dependent on these exchanges for its standard of living that the Canadian-American relationship cannot but be given priority on the policy agenda of the state. But in large measure it is because of the pervasiveness, vehemence and durability in the Canadian political culture of the emotional ideology of nationalism that bears little relation to the material interests of the individuals who hold these sentiments.

This essay has attempted to put these sentiments — and their antitheses — into the context of a broader discussion of nationalism and to draw out the premises of two very divergent models of nation that hold radically different implications for public policy in Canada. The basic assumptions, arguments and advocacies of economic nationalists — and of those who advocate a divergent course for Canadian economic policy — cannot be understood unless they are interpreted in terms of the larger and pervasive ideology of nationalism.

Notes

This study was completed in September 1984.

1. Canada, Secretary of State for External Affairs, *Foreign Policy for Canadians* (Ottawa, 1970), main booklet, p. 21.
2. See, for example, Ian M. Drummond, "The Implications of American Economic Nationalism," in *Foremost Nation: Canadian Foreign Policy and a Changing World*, edited by Norman Hillmer and Garth Stevenson (Toronto: McClelland and Stewart, 1977), p. 3: "In Canadian usage this ['economic nationalism'] is always a synonym for 'protectionism', and I shall interpret it in that sense." For further discussion of this difference, see the section "Economic Nationalism."
3. The pervasiveness of the nationalism that transcends social and economic systems is well surveyed in Anthony D.S. Smith, *Nationalism in the Twentieth Century* (Oxford: Martin Robertson, 1979).
4. On the psychological dimension of nationalism, see Gale Stokes, "Cognition and the Function of Nationalism," *Journal of Interdisciplinary History* 4 (1974), p. 525: "Nationalism's peculiar psychic strength . . . lies in its simultaneous offer to satisfy the operational person's sense of autonomy and his need for a natural community."
5. For a discussion of these characteristics, see Boyd C. Shafer, ed., *Nationalism and Internationalism: Belonging in Human Experience* (Malabar, Fla: Robert E. Krieger Publishing, 1982), pp. 29–36.
6. Smith argues that a distinction should be made between the "national ideal" and "nationalism" — "a programme of action to achieve and sustain the national ideal." Smith, *Nationalism in the Twentieth Century*, p. 3.
7. This is adapted from the list in Shafer's pamphlet, *Nationalism: Its Nature and Interpreters* (Washington, D.C.: American Historical Association, 1976).
8. See the survey of these racial views of nation in Louis L. Snyder, *The Idea of Racialism* (Princeton: Princeton University Press, 1962).
9. See, for example, the argument in Cornelia Navari, "The Origins of the Nation-State," in *The Nation-State: The Formation of Modern Politics*, edited by Leonard Tivey (Oxford: Martin Robertson, 1981), pp. 13–38.

10. However, few students would agree with the categorical assertion of Elie Kedourie that "nationalism is a doctrine invented in Europe at the beginning of the nineteenth century," in his *Nationalism*, 3d ed. (London: Hutchinson University Library, 1966), p. 9.
11. Smith, *Nationalism in the Twentieth Century*, p. 154.
12. See the discussion of Kant, autonomy, self-determination and nationalism in Kedourie, *Nationalism*, especially chaps. 2, 3 and 5.
13. See Carlton J.H. Hayes, *The Historical Evolution of Modern Nationalism* (New York: Russell and Russell, 1931), chap. 7, for a discussion of the importance of the Industrial Revolution in catalyzing the forces of national identification in European countries.
14. Indicative would be Smith, who subsumes an examination of the economic elements of nationalism under a general discussion of the phenomenon, claiming that one of the "logical corollaries" of nationalism as an ideological movement is "the drive for economic autarchy and self-sustaining growth. . . ." Anthony D. Smith, *Theories of Nationalism* (New York: Harper and Row, 1971), p. 171.
15. Harry G. Johnson, "A Theoretical Model of Economic Nationalism in New and Developing States," *Political Science Quarterly* 80 (June 1965), p. 179.
16. For example, in his exploration of the growth of nationalism through distinct phases from the 18th century, Carlton Hayes, writing in 1931, termed the 20th century type "integral nationalism" to denote the all-encompassing range of policies and symbols pursued by the "national" state. *Historical Evolution of Modern Nationalism*, chap. 6.
17. It should be noted that "interdependence," when used by economists to describe a relationship between two economies, tends to differ from its proper sense: strictly, A and B are only "interdependent" when A depends on B and B depends on A — more or less equally. The economists have introduced a looser sense of A and B being "interdependent" when they are merely "interconnected" (and it is a usage that has become colloquially accepted). For a good discussion of the semantic problems of the use (and abuse) of "interdependence" in contemporary analysis of international relations, see David A. Baldwin, "Interdependence and Power: A Conceptual Analysis," *International Organization* 34 (Autumn 1980).
18. Hayes, *Historical Evolution of Modern Nationalism*, p. 245.
19. For an exploration of Fichte's economic nationalism, see Hayes, *Historical Evolution of Modern Nationalism*, pp. 263–66; on Fichte, the Romantics, and the importance of Kantian philosophy to nationalism, see Smith, *Theories of Nationalism*, pp. 10 and 16–17.
20. As Johnson has noted, the nationalist state tends to focus its attention on certain industries not for their economic benefits per se, but for their symbolic value for national identity as indicating national competence. Thus, in the 19th century, a steel industry was regarded as the sine qua non for industrial capacity; an automobile manufacturing capacity occupies a comparable place in 20th century nationalist thinking. Johnson, "Theoretical Model of Economic Nationalism," p. 183.
21. See, for example, Gilles Bourque, *L'État capitaliste et la question nationale* (Montreal: Les Presses de l'Université de Montréal, 1977); Kenneth McRoberts and Dale Posgate, *Quebec: Social Change and Political Crisis* (Toronto: McClelland and Stewart, 1980), especially chap. 1; Quebec, Executive Council, *A Quebec Policy on Foreign Investment: Report of the Interdepartmental Task Force on Foreign Investment* (the Tetley Report) (Quebec City, 1973).
22. William D.Coleman, *The Independence Movement in Quebec, 1945–1980* (Toronto: University of Toronto Press, 1984), chap. 1.
23. George Grant, *Lament for a Nation: The Defeat of Canadian Nationalism* (Toronto: McClelland and Stewart, 1965).
24. See the discussion of the differences between an integrat*ed* and an integrat*ive* relationship in Naomi Black, "Absorptive Systems are Impossible: The Canadian-American Relationship as a Disparate Dyad," in *Continental Community? Independence*

and Integration in North America, edited by Andrew Axline et al. (Toronto: McClelland and Stewart, 1974), pp. 96–97.

25. This assumption underlay many of the works on American "domination" that appeared in the late 1960s. See, for example, Abraham Rotstein, *The Precarious Homestead: Essays on Economics, Technology and Nationalism* (Toronto: New Press, 1973); Ian Lumsden, ed., *Close the 49th Parallel Etc: The Americanization of Canada* (Toronto: University of Toronto Press, 1970); Abraham Rotstein and Gary Lax, eds., *Independence: The Canadian Challenge* (Toronto: Committee for an Independent Canada, 1972); Robert Laxer, ed., *(Canada) Ltd.: The Political Economy of Dependency* (Toronto: McClelland and Stewart, 1973).

26. These economic effects are most fully examined in Canada, *Foreign Direct Investment in Canada* (the Gray Report) (Ottawa: Minister of Supply and Services Canada, 1972).

27. Kari Levitt, *Silent Surrender: The Multinational Corporation in Canada* (Toronto: Macmillan, 1970), p. 77.

28. Gary Lax, "The Development of Canadian Entrepreneurship," in *Getting It Back: A Programme for Canadian Independence*, edited by Abraham Rotstein and Gary Lax (Toronto: Clarke, Irwin for the Committee for an Independent Canada, 1974), pp. 49–66.

The Statistics Canada figure for 1969 quoted by the study commissioned by Herb Gray was $63.5 million, a figure the study suggests is "undervalued." See *Foreign Direct Investment in Canada*, pp. 124, 130–31.

30. Levitt, *Silent Surrender*, pp. 130–45. The same point is made in Edward Carrigan, "Foreign Ownership and Canadian Technology," in *Getting It Back: A Programme for Canadian Independence*, edited by Abraham Rotstein and Gary Lax (Toronto: Clarke, Irwin for the Committee for an Independent Canada, 1974), pp. 34–48.

31. "A tragic feature of Canada's technological hinterland status," Levitt wrote in 1970, "is the frustration experienced by her scientists, many of whom sooner or later depart in search of more challenging work in the United States." *Silent Surrender*, pp. 133–35.

32. *Foreign Direct Investment in Canada*, p. 131.

33. Ibid., chap. 10, especially pp. 180–81.

34. Levitt, *Silent Surrender*, p. 135.

35. See *Foreign Direct Investment in Canada*, pp. 218–21; also, from a more polemical perspective, Jim Laxer, "Canadian Manufacturing and U.S. Trade Policy," in *(Canada) Ltd.: The Political Economy of Dependency*, edited by Robert Laxer (Toronto: McClelland and Stewart, 1973), pp. 127–47.

36. Grant, *Lament for a Nation*, pp. 40–41.

37. *Foreign Direct Investment in Canada*, p. 296.

38. See particularly the collection of essays in Lumsden, *Close the 49th Parallel*.

39. This, it might be noted, was a distinctly minority view within the economic nationalist movement, though it might be mentioned that even a moderate like Walter Gordon was prone to speak of "Imperial Washington." See his "A Choice for Canada," in *Independence: The Canadian Challenge*, edited by Abraham Rotstein and Gary Lax (Toronto: Committee for an Independent Canada, 1972), p. 71.

40. The best survey of the extraterritorial issue is by David Leyton-Brown, "Extraterritoriality in Canadian-American Relations," *International Journal* 36 (Winter 1980–81): 185–207.

41. Denis Stairs, "North American Continentalism: Perspectives and Policies in Canada," in *Regionalism and Supranationalism: Challenges and Alternatives to the Nation-State in Canada and Europe*, edited by David M.Cameron (Montreal: Institute for Research on Public Policy, 1981), pp.86–87.

42. See the articles in Stephen Clarkson, ed., *An Independent Foreign Policy for Canada?* (Toronto: McClelland and Stewart, 1968); and some of the pieces in J.L. Granatstein, ed., *Canadian Foreign Policy Since 1945: Middle Power or Satellite?* (Toronto: Copp Clark, 1969). Cf. the conclusion of the Gray Report: "Foreign direct investment, particularly from the United States, has had some impact on the broad foreign policy posture and the general formation of foreign policy and relations,

through its effect on the cultural environment in Canada. The impact on specific 'political' policy objectives, however, does not appear to have been great." *Foreign Direct Investment in Canada*, p. 312.

43. Levitt, *Silent Surrender*, p. 106.
44. Mitchell Sharp, Secretary of State for External Affairs, "Canada–U.S. Relations: Options for the Future," *International Perspectives* (Special issue, Autumn 1972).
45. The assertion that the economic nationalist position is based largely on emotion is made in Johnson's *The Canadian Quandary: Economic Problems and Policies* (Toronto: McGraw-Hill, 1963); see particularly his essays "Problems of Canadian Nationalism," p. 16 and "External Economic Policy (ii), p. 114; Canada, Senate Standing Committee on Foreign Affairs, *Canada–United States Relations*, vol. 3: *Canada's Trade Relations with the United States* (March, 1982), p. 117; Economic Council of Canada, *Looking Outward: A New Trade Strategy for Canada* (Ottawa: Information Canada, 1975).
46. Albert Breton, "The Economics of Nationalism," *Journal of Political Economy* 72 (August 1964).
47. Johnson, "Problems of Canadian Nationalism," p. 13.
48. Johnson, "External Economic Policy (i)," p. 102.
49. Peyton V. Lyon, *Canada–United States Free Trade and Canadian Independence* (Ottawa: Economic Council of Canada, 1975), p. 32.
50. Economic Council, *Looking Outward*, p. 116.
51. The "argument" is a condensed amalgam of the arguments presented in the writings of Johnson, *Canadian Quandary*; Economic Council of Canada, *Looking Outward*; Lyon, *Canada–United States Free Trade*; and Senate Standing Committee on Foreign Affairs, *Canada–United States Relations*, vol. 3.
52. Rodney de C. Grey, *Trade Policy in the 1980s: An Agenda for Canadian–U.S. Relations*, Policy Commentary No. 3 (Montreal: C.D. Howe Institute, 1981), pp. 4–6, argues that the focus on "free trade," with its emphasis on tariffs, has less relevance than the issue of "freer trade," given the importance of non-tariff barriers to trade. See also Canada, Department of External Affairs, *A Review of Canadian Trade Policy* (Ottawa: Minister of Supply and Services Canada, 1983), pp. 203–13.
53. Senate Standing Committee on Foreign Affairs, *Canada–United States Relations*, vol. 3, p. 111.
54. Lyon, *Canada–United States Free Trade*, p. 35.
55. A.E. Safarian, "Some Myths About Foreign Business in Canada," *Journal of Canadian Studies* 6 (August 1971): 3–21; see also his "Foreign Direct Investment from a Canadian Perspective," in *Continental Community? Independence and Integration in North America*, edited by Andrew Axline et al. (Toronto: McClelland and Stewart, 1974), pp. 274–301.
56. The assertion that "Canada's disappearance as a nation is a matter of necessity" appears on a number of occasions throughout *Lament for a Nation*.
57. For example, see Archibald MacMechan, "Canada as a Vassal State," *Canadian Historical Review* 1 (December 1920): 347–53, a lamentation about the Americanization of Canada, particularly the propensity of Canadians to flock to the "new" cinemas.
58. Susanne Bodenheimer, "Dependency and Imperialism: The Roots of Latin American Underdevelopment," *Politics and Society* 1 (May 1971): 327–58. Usually, it should be noted, *dependencia* theorists link dependence to economic development, arguing that dependency is where one society inhibits or conditions the ability of another society to develop.
59. Senate Standing Committee on Foreign Affairs, *Canada–United States Relations*, vol. 3, p. 111.
60. Johnson, "External Economic Policy (ii)," p. 114.

North American Integration and the Canadian Political System

CHARLES PENTLAND

Introduction

What would closer economic ties with the United States mean for the character of the Canadian political system? From our limited experience of international economic integration we have learned that it can have a great many political consequences, some expected or intended, others unforeseen. Occasionally both politicians and the general public have debated such consequences with special fervour, as in the case of Britain's application to join the European Community. In general, however, the political effects of economic integration have been subjected less to systematic analysis than to the assertion of allegedly self-evident truths.[1]

Most analyses that have been done are concerned either with the consequences for the integrating region as a whole, or with the impact of integration on the world beyond that region. Students of the European Community, for example, have documented the effects of economic integration on the institutions and processes of collective decision making among the states involved, and have explored in some detail how the Community has influenced the perceptions, interests and policies of the United States or of Third World countries. But they have rarely examined the domestic political impact, for the individual member states, of their involvement in a process of regional unification.[2] Only where partisan opposition to the Community has been significant, as in Britain and Scandinavia during its first enlargement, or where there was a philosophical climate of skepticism as to its benign effects, as on the European left in general, has there been much discussion, until recently, of the domestic political impact of economic integration.

Given the vigour with which Canadians have long debated the question of economic integration with the United States, it is not surprising to find a more abundant literature in Canada than in Europe on its possible political consequences. Like its European counterpart, this literature is a mix of systematic analysis and political polemic, although it puts a particular emphasis on the implications for Canada's formal sovereignty and its freedom of action in foreign policy. As in Europe, the proportion directed specifically to the *domestic* political consequences is small.

This paper thus ventures into relatively unexplored territory in undertaking a necessarily speculative and preliminary study of the domestic political impact, in Canada, of various forms of North American economic integration. On the face of it, this seems a question eminently suited to rigorous empirical analysis, with a clearly identified independent variable (North American economic integration) and a dependent variable or set of variables describing the character of Canadian politics. In fact, matters are much less simple. In the first place, "North American economic integration" refers not only to a wide range of arrangements proposed or predicted for Canada–U.S. relations, but also to a more general process — international integration — to which scholars have found it notoriously difficult to attach precise measures. Secondly, in the complex set of institutions and behaviour that constitutes the Canadian polity, it is by no means clear where to look for the significant effects of integration. And thirdly, because propositions relating involvement in North American integration with aspects of the Canadian political system are so thin on the ground, we are obliged to seek inspiration in the theoretical literature and in regions where integration processes seem to be occurring, which may or may not be comparable to the Canadian situation.

Robson has defined economic integration as "a state of affairs or a process involving the combination of separate economies into larger economic regions."[3] Economists usually draw a distinction between a basic, "negative" form of integration, which entails the removal of discrimination and of restrictions on the free movement of goods and factors of production between countries, and a more advanced, "positive" form, which requires the development of common institutions and policies to enable the integrated market to function effectively and to promote collective political and economic objectives.[4] This distinction may have made some sense, economically, ideologically, and tactically, in the western Europe of the 1950s where it originated. But the notion of two discrete phases, one in which governments get out of the way of the market, and the other in which they reappear to intervene collaboratively, hardly fits the mixed capitalist economies of the late twentieth century.[5]

While, therefore, North American economic integration may still conform roughly to Balassa's classic model, in which three cumulative

stages of negative or market integration (free trade area, customs union, common market) are succeeded by two stages of positive or policy integration (economic union and total economic integration),[6] that model needs some reformulating for application in this study. Taking into account not only the specifics of the North American case but also some theoretical criticisms of Balassa's formulation,[7] the appropriate stages for this analysis seem to be: (1) sectoral (partial) free trade; (2) comprehensive free trade (with rules of origin); (3) customs union (free trade plus common external tariff); (4) common market (customs union plus free movement of all factors of production); (5) selective common policies and harmonization; and (6) full economic and monetary union. In principle, each stage incorporates all features of the preceding one, while adding a new element. Certainly some of these forms of economic integration are more plausible than others in the North American setting, and thus deserve more attention here. Nevertheless, given the speculative nature of this exercise, it might be worthwhile to touch on the implications of even the less likely forms.

Such a characterization of the likely progress of North American economic integration raises two questions of theory and policy. First, is there a tendency to move more or less automatically from one stage to the next? Political theories of integration have often asserted such a logic, while pure economic theory remains more skeptical.[8] In the Canadian literature there is a long-standing debate between nationalists, who see rudimentary free trade arrangements as the first step on a slippery slope, and those who believe Canadian-American integration can be managed and contained at an early stage.[9] The apparent stalling of European integration over the past fifteen years has suggested to some that a "steady state" can indeed be reached well short of full economic union, and to others merely that the process is gathering itself for a new leap forward. Both sides would at least agree that progress from stage to stage, especially beyond the customs union, is unlikely to be smooth. A related question is whether any stages can be by-passed. Regardless of whether there is an inexorable logic to economic integration, it does seem reasonable that economic unions need not necessarily be assembled stage-by-stage from the bottom up. As the European Community demonstrates, some common policies may well be installed before the customs union or common market is complete. In the North American case, we should not be surprised to see considerable deviation from this logical progression if Canada and the United States begin to assemble the components of a fuller economic association.

This leads to the second question, of equal importance for the Canadian-American case. Is there a correlation between the level of economic integration and the degree of institutional development in the members' relations? The usual assumption is that higher levels of integration require more elaborate common institutions with considerable capacity

for intervention and thus serious implications for domestic politics. If this is true for multilateral Europe, need it also apply to the bilateral North American system? To the extent that it does, the problem of domestic impact is likely to be different at the level of negative integration from what it could become in the presence of institutions for positive policy integration. On the other hand, the informality with which Canadian-American relationships are now managed should at least alert us to the possibility that the correlation between level of integration and degree of institutionalization is weaker in this setting than in Europe.

All the current proposals for greater Canadian-American economic integration concern the lower reaches of negative or market integration with a minimum of shared institutions. For example, sectoral free trade has recently been under discussion, with attention centred initially on steel, agricultural machinery, computers and government procurement in the urban mass transit industry. Should the initial experience prove successful, the intention is that other sectors would subsequently be added. Evisaged for each sector is the removal of tariffs and other trade barriers on a carefully designated list of components and products traded between the two partners, much along the lines of the existing agreements in the automotive and defence-production sectors. Although these explorations lapsed with the change of government in Ottawa in the fall of 1984, the sectoral free trade option remains open.[10] Potential difficulties in this approach include compatibility with the General Agreement on Tariffs and Trade (GATT), and the need to seek a balance of Canadian and American anticipated gains, either within or among the sectors selected. In these latter respects the Auto Pact of 1965 has come to serve less as a model than as a warning to each government of the hazards of sectoral arrangements.[11] It is, moreover, far from certain that free trade can be contained to a limited number of sectors.[12]

Proposals for comprehensive free trade between Canada and the United States have been made with increasing frequency over the past decade. They have come from government (the reports of the standing Canadian Senate committee on foreign affairs), advisory bodies (the Economic Council of Canada), academic ecomomists and, more discreetly, from a number of American sources (such as the Atlantic Council of the United States).[13] Of these, the Canadian Senate committee's scheme, based on lengthy and exhaustive hearings and presented in considerable detail, may be taken as representative. It proposes a strictly bilateral free trade area, excluding agriculture, which (since raw materials trade is already largely duty free) would embrace semi-manufactured and finished goods. The senators do not consider a customs union with a common external tariff feasible, proposing instead to control trade deflection through certificates of origin. There is no intention of moving on to a common market (with free movement of labour, services and capital beyond what already exists in North America) or to

economic and monetary union (indeed, the Canadian dollar's freedom to fluctuate against the American is cherished as ensuring Canada's ability to compete). Some common institutions would be required to monitor these arrangements and to handle trade disputes. Built into the system would be certain safeguards for Canada concerning investment and employment, and a transition period of between 10 and 15 years before full application was reached. The senators accept the judgment of certain economists that Canada would benefit disproportionately from full free trade, with eventual gains of up to 10 percent in this country's standard of living.

Beyond these two early stages of integration, matters are very different. No serious proposals have been made for a North American customs union, common market or full economic and monetary union. One can, of course, imagine what these forms of integration would look like; such imaginings are in fact a staple of Canadian nationalist writers (and a few Americans like George Ball) who assume that once free trade is broached there is no stopping the erosion of Canadian economic and political independence. But the closest that such notions have come to political tangibility has been in the brief career of Mr. Reagan's proposals for a "North American accord." Insofar as there was substance to these ideas, they seemed to encompass free (or at least freer) trade combined with common or harmonized policies in such areas as energy, and perhaps more active collaboration in foreign policy. Elements of policy integration or cooperation would thus be combined with elements of market integration.[14]

Regardless of how fanciful Canadian nationalist nightmares and American campaign rhetoric might seem, it may prove rewarding to reflect on how some of these more hypothetical forms of North American integration might bear on Canadian domestic politics. Although it is necessary, as suggested earlier, not to accept uncritically the notion of a relentless march from free trade to economic and political union, it is equally necessary to allow that North American integration might take an unprecedented form in which elements of policy integration were instituted before lower levels of integration were complete.

Since this study is concerned with the impact of North American integration on the Canadian political system, it will not deal directly with the question of how Canada's sovereignty, her freedom of action in foreign policy or her power relative to the United States might be affected. The focus of the analysis will be the consequences of integration for the institutions and policy processes of Canadian government, and for the character of Canadian political society. We will take it for granted that this domestic political system is far from watertight, and that internal changes resulting from integration will frequently affect Canada's independence and external relations. If, for instance, economic integration brings about further Americanization of Canadian

culture and society, it would be reasonable to predict a closer alignment on most policy issues.

Less easy to determine are the points in the Canadian political landscape at which the "integration effect" is likely to show up. In the first place, it may be that at the lower and more plausible levels of North American integration (i.e., sectoral or comprehensive free trade) the domestic effects on Canada will prove difficult to distinguish from the consequences of existing Canada–U.S. links, and that significant effects only emerge at more advanced levels. Students of European integration rarely faced this difficulty, since even the establishment of free trade was bound to have major domestic consequences, given the initially low level of integration in the region and the distinctive and protectionist character of the participating nation states.

It might prove more useful, then, to look first to the theoretical literature for general propositions about the domestic impact of international integration, refining and developing these ideas in the light of western Europe's well-documented postwar experience. We can then assess the extent to which these theories apply to the various schemes for North American integration and to the peculiarities of the Canadian system.

International Economics Theories and Domestic Consequences

The theoretical writings of international economists seem, at first glance, full of ideas on how the integration process might affect a state's domestic politics. The economics of international integration, as a subfield of international trade theory, reached an impressive degree of development and theoretical refinement in the 1950s and 1960s. Among its aims is to describe and predict the consequences of the reduction of barriers to trade for participating states, for the integrating region, and for the international economy as a whole. As befits a body of literature aspiring to the status of pure economic theory, it pays little attention to political consequences. Nevertheless, it should be possible to draw some inferences about the domestic political impact of integration from what this literature says about the economic consequences of participation in customs unions and other such schemes.

The first potential contribution of this literature to our understanding of domestic consequences lies in the analysis of static effects. This analysis deals with the effects of trade liberalization on individual member states' terms of trade and on trade creation or diversion. From shifts in trade patterns, in turn, flow a variety of welfare effects, distributed variously among economic actors in each society. The political impact of such changes might be expected to lie, first, in their overall net effects for the society concerned. In a climate of freer trade do a state's terms of

trade with its partners improve (in which case one might expect its export industries to prosper, with attendant benefits for their regions, investors and employees), or do they deteriorate? Does free trade mean a net improvement in the balance of trade or payments (in which case overall gains in national income might produce a variety of political payoffs for the party in power or for the political system as a whole)? Does free trade lead to cheaper imported consumer goods, which also represent a broad-based benefit for society? For the political scientist, then, the calculation of gains and losses from static effects has to do less with a state's trade performance than with consequent short-term shifts in the general availability of economic resources for coping with its domestic problems.

Another set of political consequences could be expected to flow from the impact of changing trade patterns on specific firms and sectors, and thus on the various interests — regional, bureaucratic, financial, trade union — associated with them. The expectation is that if trade liberalization is to have any economic meaning for the participants it will produce winners and losers, the distribution of gains and losses within each society becoming evident almost immediately. To the extent that these differential static effects within a society are dramatic or concentrated (sectorally, regionally) they can become potent forces politically. One should not, of course, ignore the possibility that large net gains from trade for the society as a whole could offset political stress occurring only in some sections of the economy (i.e., if the pie is expanding for everyone, the fact that some people's sectors grow faster than others' may not assume political significance). On the other hand, large aggregate losses for the society could be expected to exacerbate this stress, although in such circumstances we might logically expect widespread pressures to develop in favour of quitting the free trade arrangement. In all this it should be recalled that economists have generally found the static effects of free trade to be relatively small in the total scheme of things. This suggests that we should not exaggerate the political consequences of such economic developments.

The economists' second potential contribution lies in their analysis of the dynamic effects of trade liberalization. These are difficult, elusive subjects of study but represent forces for far-reaching economic and political change in any society. In general, dynamic effects are the longer term structural and attitudinal responses of an economic system to integrative measures such as trade liberalization. They represent primarily the strategic decisions of firms with respect to innovation, investment and productivity in the light of the new opportunities and threats emanating from a more open trading environment. The potential effects of such strategic decisions include structural change in the economy, particularly the rise or decline of specific sectors, changes in the balance of primary, secondary and tertiary activity, shifts in the geographical

distribution of activity, and tendencies toward either concentration or increased competition.

To the extent that the national economies involved in an integration scheme are initially distinctive, relatively protectionist and complementary, these dynamic effects will probably be considerable. As with static effects, it is important to distinguish between net gains or losses for a society as a whole (which may have consequences for the general political climate) and differential effects within the society (which have the potential for increasing demands and stress on the political system). Overall gains and losses depend largely on how well the economy as a whole competes in the larger international setting created by integration. We can be more certain that, whatever the case, the differential dynamic effects within the society will be of much greater magnitude than the differential static effects and will have correspondingly more political significance. The political consequences of such differential dynamic effects could include increased tension among regions, classes and other interests. Those in secular decline would perhaps make claims for economic recompense or for continuation of their cherished access or status. Those on the rise (i.e., associated with sectors gaining from integration) might flex their newly acquired political muscle. At the very least, this is a recipe for increased political stress and turbulence. More than that, dynamic economic effects might bring about a wholesale redistribution of political power and establish a new "dominant coalition" in the political system.[15]

In order to identify with any credibility the potential winners and losers among firms, sectors, regions, classes or interests within a given economy, a precise knowledge of the form of integration to be undertaken is needed, especially as regards sectoral coverage, eventual extent and timing. Even with such knowledge, the prediction of economic effects still involves a considerable amount of educated guesswork. It is all the more difficult to forecast the political consequences flowing from the sorts of economic change under discussion, especially if we assume that an economic cause may have a variety of political effects, depending on a whole range of intervening variables.

With respect to common markets and the various forms of policy integration leading up to full economic union, economic theory is much less developed than for free trade and customs unions.[16] There is a large body of work on the mobility of labour and of capital, as well as on monetary integration, the thrust of which seems to be that when such provisions follow trade liberalization they tend to accentuate its dynamic effects. The theory of common markets, such as it is, thus extends to labour, capital and services the sort of analysis applied to trade.[17] For those interested in domestic political effects, however, these factors have an additional dimension in that, even more than goods, people and investment carry with them cultural and social implications

for the societies they enter or leave. We must, therefore, consider their effects not only on national prosperity or intra-societal economic differences, but also on such matters as economic and political preferences and political culture in general. In short, full factor-market integration is bound to have broader societal and political effects than simple commercial integration. The same holds true for policy integration between member states of an emergent economic union, especially if the circumstances of integration require more adjustment (e.g., of tax structures, wage policies, competition or industrial strategies) on the part of smaller economic entities obliged to conform to larger ones.

The economists' most important contribution to our analysis of the domestic political effects of integration may well lie in their debate over the question of whether the long-term overall effect of integration is to polarize (concentrate) or to spread economic development in a society.[18]

The classic liberal view holds either the doctrinally pure position that unaided market forces will create a natural state of equilibrium among regions of a national economy, or the "real world" version that initial polarization will be followed by the gradual spread of investment and employment to less-developed regions of the country, essentially by the "external stimulus" of interregional trade. In this latter scenario, public authorities may intervene to the extent that there is no "natural" complementarity between richer and poorer regions.

The opposing view holds that the effects of customs unions and common markets are to widen the gap between rich and poor regions. As Robson puts it: "The creation of a common market normally increases the power of existing central areas to attract economic activity at the expense of peripheral areas. However, other areas may be viable and competitive if, with public support, they can be helped to develop. Left to itself, however, the market may generate perverse adjustments."[19] Regional disparities are, in this view, the product of "cumulative causation"[20] where the already prosperous "poles" gain the most in investment, research and development and jobs, often attracting capital and labour out of the poorer regions in the process. Marxist economists are particularly insistent that the domestic disequilibria (among classes and sectoral interests as well as regions) created by tariff disarmament are not self-correcting over time. Rather, the international integrative process reinforces the existing tendency for the strong to get stronger at the expense of the weak.[21]

Recent experience makes it difficult to take seriously the pure liberal position that the economic development flowing from international integration necessarily reduces regional disparities within a state. The "real world" variant, which emphasizes the need for interregional trade, government intervention or both, does seem more persuasive. Significantly, it shares with the polarization doctrine the conviction that the costs and benefits of integration will indeed be distributed unequally, at

least in the short term. Whether these disequilibria are eventually corrected is the point of divergence and, to some extent, a matter for empirical testing. Nevertheless, to the extent that the liberal position assumes that national authorities must intervene to reduce disparities, and to the extent that international integration is predisposed against the continuation of such domestic practices, liberal logic may embody a fatal flaw.

Even if the political implications of these studies have to be drawn out, this research provides us with a number of important leads on the domestic impact of international integration. Oddly enough, the best developed area of economic work, that of static analysis, seems the least use insofar as it deals with fairly small effects, while the theory of common markets and policy integration suffers from its relative lack of advancement. Those areas of greatest interest — dynamic analysis and the "polarization-spread" debate — raise a number of themes which will reappear as we turn to the literature of political science and then to the experience of the European Community.

Political Science Theories and Domestic Consequences

The political science of international integration has had surprisingly little to say about the domestic political impact of a state's involvement in integration. In part this situation reflects the preoccupation of political analysts with the fate of the integrating region as a whole (e.g., the emergence of common European institutions for economic policy and the end of Franco-German hostility) or with its place in the broader global system (e.g., the impact of European unification on the East-West balance, or on North-South relations). Insofar as domestic politics have been considered at all, it has been assumed that, as integration developed, they would undergo a radical transformation under the increasing pull of transnational ties and the centripetal forces of supranational legislative institutions. The neofunctionalist school, which dominated the political science of integration from the late 1950s through to the early 1970s, assumed that the chief role of integration theory was to account for the emergence of a new regional polity (e.g., in western Europe, East Africa, Latin America) out of a disputatious and inefficient group of sovereign states. Under the right combination of incentives and pressures, national governments would cede chunks of their sovereignty to a new supranational authority in which they shared power. As this happened, national interest groups would reorient their attention and resources to this new authority.[22] The dominant image was of a zero-sum competition, in which national politics would wane as supranational politics waxed. Domestic political consequences were thus considered

only in the sense that domestic politics as conventionally understood was judged to have little future.

By the 1970s, however, the deficiencies of this view had become clear. Political scientists now acknowledge that integration need not mean the demise of national governments and politics. This awakening has had two effects. First, it has encouraged analysis of the two-way relationship between national governments and supranational institutions which marks the policy-making process in such organizations as the European Community.[23] Secondly, it has caused some scholars to take as their prime concern how government institutions and policy processes have adapted to participation in integration and how the broader social and political systems of member states have been affected.[24] Since much of this analysis has focussed on the European Community, I shall deal with it in the next section. Here it would be appropriate to set out some propositions of a more general character about the domestic political impact of integration.

The first of these is virtually an axiom of political integration theory. It asserts that the prosperity flowing from trade liberalization will serve to stabilize political and social life. This doctrine had a special poignancy in postwar Europe, where the 1930s had created widespread belief in the connection between economic crisis, domestic unrest and the incidence of war. Economic integration would, it was hoped, ensure that western Europe's states remained both democratic and pacific. More generally, political integration theory shared a syndrome of ideas related to the nature of the post-industrial world, in which internationalization, modernization, the end of ideology and the decline of intra-societal conflict were all linked. In this view, the growth and spread of income serves as a "universal problem solvent."[25] To the extent that integration aids economic modernization, development and growth, it is claimed, it tends to stabilize democratic systems both by enhancing their legitimacy and by alleviating through collective action some of the more critical economic and social problems they confront. Some of the arguments favouring Spanish and Portuguese accession to the European Community provide a recent illustration of these themes.

A second proposition, finding support among radical critics of European and North American integration, is almost the antithesis of the first. It holds that international integration brings about domestic fragmentation, aggravating tensions among classes, interest groups and regions.[26] In great part such tensions are attributed to the unequal development said to flow from economic integration.[27] In addition, there is the factor of transnational and supranational allegiances. As integration advances, domestic groups and even regional governments develop closer ties with their counterparts in other states involved while, as the orthodox neofunctionalist theory predicts, interest groups begin to orient more of their activity and loyalties toward the emerging suprana-

tional authority from which increasing benefits flow. All this, it is argued, will be at the expense of national political cohesion.

A third proposition looks at the other side of this coin, the diminution of the role of the national government in managing domestic affairs and regulating conflicts. If, on the one hand, one economic consequence of integration is indeed to exacerbate economic divergence within the state, on the other hand its political effect is to place an increasing number of external constraints on the government's capacity to rectify such problems. In general terms, "the social integration of classes within nation-states," writes Holland, could be "hindered rather than helped by a preoccupation with the problems of international adjustment which international economic integration could entail."[28] But it is not just the increased need to trim policies to changing external circumstances that limits governments' performance of their traditional domestic functions. The more freely goods and other factors of production flow between countries, and the more elements of policy integration are in place, the more that traditional national policies for managing domestic tensions (such as regional subsidies) come under the hostile scrutiny or even the sanctions of economic partners. As the level of integration moves beyond the common market stage, it becomes increasingly difficult for governments to invoke peculiar national needs in order to justify domestic policies which may discriminate against their partners or, indeed, which diverge seriously from the consensus among them.

Closely related to this is the proposition that, being a deliberate attempt to intensify transnational interdependence, integration erodes governments' ability to control the impact on their societies of other states' actions. Indeed, in the conduct of government business, foreign and domestic policy become increasingly difficult to distinguish from each other. In effect, integration results in the domestication of relations with partner states, and in the externalization of one's own domestic affairs. National governments are constantly confronted with trade-offs among the gains in influence, information and wealth to be had from such two-way linkages, and the potential losses of control and autonomy they imply.[29] The effort to adjust to these new realities of their policy environment accounts for much of the institutional manoeuvring and realignment characteristic of governments involved in integration projects.

A fifth proposition derives from the more socially and culturally oriented literature on political integration, which tends to see a circular, causal relationship between the intensification of integrative links (flows of goods, people, money; common policies; common institutions) and the homogenization of those states' societies, cultures and political systems. Just as like systems are more prone to integration, so integration enhances likeness. This relationship is most striking when it is not symmetrical, when a small power is integrating with a large one and, not surprisingly, is doing most of the domestic adjustment. Even in more

balanced, multilateral systems of integrating states, however, some homogenization is evident, whether from the merging of markets and consequent changes of values and preferences, or from the decline in governments' ability to exercise domestic authority in the name of the national social, cultural and political heritage.

Perhaps the best known, and most controversial, proposition of classic political integration theory is that the process is "condemned to succeed." The argument is that, once initiated, economic integration tends to move from lower, relatively simple forms, gradually but inexorably toward higher, more complex forms. The achievement of each stage, it is argued, releases dynamic forces that create pressures to move onward and upward. Customs unions become common markets, which in turn tend toward economic and monetary union, leading to the ultimate step of political union. In some cases the logic is largely economic, as in the observation that free trade has within it the seeds of a common competition policy and some sort of monetary regime. In others the logic is more political. Neofunctionalists argued that each agreement to integrate would set in motion a new round of bargaining among groups and governments, some of whom would feel relatively deprived as a result, and would push for further integration to favour their interests.[30] If we accept that the higher levels of economic integration resulting from this "spillover" process necessarily require ever more powerful and complex supranational institutions, the potential domestic consequences for integrating states are clear. What is less clear is whether the basic proposition holds true. To some observers the European Community's experience to date seems to suggest that economic integration may be self-limiting, self-encapsulating or, at the very least, politically controllable. This is a point which proponents of Canada–U.S. free trade hold dear. It would be useful, therefore, to turn to the European case before attempting to assess some of these ideas in the North American setting.

The Domestic Consequences of Integration in the European Community

The European Community (EC), as the most advanced and best-studied case of economic integration among industrialized democracies, would seem to lend itself to comparisons with the North American system. Its experience over three decades has been the major source and testing ground for the theoretical propositions we have examined above.

Confounding the expectations of both optimistic federalists and diehard nationalists, the EC has evolved into a unique kind of mixed political system. It is a hybrid not only of national, transnational, international and supranational politics, but also of the various stages in Balassa's multi-levelled model of economic integration. The EC is best described today as a customs union (internal tariffs having been abol-

ished and the common external tariff established by 1968) which has acquired some features of a common market (e.g., free movement of labour, some professions and services) and a limited array of common or harmonized policies. Most notable among these are the common agricultural policy, the common commercial policy, the competition regime, certain instruments for social and regional development policies, a degree of fiscal harmonization and (since 1979) the European Monetary System.

By all accounts the EC's economic impact on western Europe as a whole has been considerable. Relations among western Europe's nations have been transformed, apparently irrevocably, from the traditional "state of war" to the diplomacy of complex interdependence. Collective economic management occurs mostly through Community institutions, some through truly supranational decision making in which the EC's Commission, its independent authority, dominates, some through intergovernmental bargaining among members in the Council, and some by a mixed and messy process in which Community-level activity extends, supplements and mingles with national politics.[31] National political systems have become porous as bureaucracies, interest groups and even political parties have established transnational linkages and have directed their activity increasingly toward EC institutions. Community decisions, in turn, have a direct effect, often unmediated by national governments, on member states' economies, societies, cultures and politics. Community politics has hardly superseded national politics, but it has altered the latter's character to a remarkable extent.

The EC's main success has been in the realm of negative integration. The swift establishment of the customs union and the free movement of labour corresponded with impressive surges of trade, labour migration and economic growth, although cause and effect are not easy to determine here. In each member state's economy the results have been spectacular increases in productivity, specialization and the standard of living, as EC Europe has evolved into a virtually homogeneous economic zone.[32] Aside from the common agricultural policy (arguably a special case), however, efforts at positive integration have been less successful. The Treaty of Rome is above all a liberal document, making only rare genuflections to planning or policy integration at the Community level. As one left-wing critic puts it, "negative *integration* as both the dominant ideology of the Community and the dominant characteristic of joint policies, is set to eclipse the mixture of negative and positive *intervention* still practised . . . by most national governments."[33] To such critics, the pressures of multinational capital explain both the success of negative integration (big business favours wide-open markets) and the scarcity or weakness of positive EC policies, which might restrict the multinationals' freedom to allocate resources as and

where they wish.[34] This broad judgment, plausible in many respects, must be tempered by an awareness of how governments have adapted to Community membership both in retaining their interventionary powers and in learning to deploy EC institutions to regulate the behaviour of multinational business where there is a consensus to do so.[35]

Not surprisingly, the Community's impact on member states' economies and societies has been far from uniform. While all members have experienced gains in manufactured exports and in national prosperity which can be attributed to the customs union, some have profited much more than others. The big winners here are West Germany, Italy and the smaller states such as Denmark and the Netherlands. France and Britain have done less well in their balances of trade in finished goods with the EC and, correspondingly, have been less attractive to new investment. Even so, industrial concentration and specialization have been as marked a feature of the French and British economies as of the others, and France, followed by Germany and Italy, experienced unprecedented growth in employment and productivity from 1958 to 1974.

In agriculture the large-scale, capital-intensive farmers of northern France, Denmark and the Netherlands have profited most from the common policy. The spectacular rise in Irish farmers' income following access to European markets provides an interesting case of differential economic effects with political consequences. In combination with an EC-related rise in food prices, it has been linked to an increase in social tensions between town and country.[36] All these countries are net gainers from European agricultural integration. But Britain and Germany, whose farmers do well (for different reasons) from the agricultural regime, are net losers because of their import-dependency and, in Britain's case, the peculiarities of the EC budget. Mediterranean farmers in Greece, Italy and southern France are the least favoured of all under the policy, which leads to palpable interregional tensions in France and Italy, countries with both "northern" and Mediterranean agricultural areas.

What effect has the EC had on regional disparities more generally? The evidence points to no consistent pattern. In France, regional disparities measured in GNP per capita have neither grown nor decreased, but the declining industrial regions have joined the traditionally backward rural areas as political problems, partly as a result of the opening of French markets to EC competition. Indeed, the tribulations of old industrial areas such as Lorraine seem poised to overtake those of the southern wine growers or the demands of ethnic regional movements as the prime threat to French domestic stability. In Britain, the Community's regional impact seems to have been marginal: the main problems clearly predate membership, and Community-level responses (e.g., the Regional Development Fund) count for little relative to national instruments of regional policy. Similarly, Italy's principal regional problem,

the Mezzogiorno, a legacy of the nineteenth century, has been little aided by the EC; indeed, it is argued that while northern industry benefited from European export markets the south merely gained an outlet for emigration which did nothing for local development while making per capita income and unemployment figures look better than they would otherwise have done.

Kiljunen's overall judgment is that

> No dramatic changes have occurred in regional differentials within member countries. Allowing for statistical shortcomings, it seems that the gaps have generally narrowed. At the Community level, however, no convergence of the regions has taken place, the main reason being the increased divergence of national economies. It is not possible to assess to what extent this trend is attributable to Community membership per se; what can be said is that the gap between the less developed and more developed regions remains wide, and has indeed widened during the 1970s.[37]

This seems a reasonable assessment; but it is worth adding that, with respect to inequalities *within* member states, the per capita GNP figures on which Kiljunen and others rely can disguise persistent or deteriorating structural inequalities. Secondly, although regional inequalities may not have become worse, it may be more significant politically that they have not been ameliorated, especially in a context of rising expectations. Thirdly, the statistics tend to miss the qualitative changes in the regional problem (i.e., in its cultural and political elements) which are especially significant in Belgium, France, Ireland and Italy.

The case of Belgium, while perhaps not representative of the overall EC experience, may prove instructive for Canada. Interregional conflict between historically dominant French-speaking Wallonia and the growing economic and political power of Flemish-speaking Flanders appears to have been exacerbated by their different experience of European integration. The Walloons have seen their local coal mines closed, their 19th century metals-based industries threatened and their unemployed offered, at best, EC assistance for retraining or relocation. By contrast, the Flemish, already a demographic majority in the country, have prospered with new manufacturing investment attracted by geography (access to the sea and to the heart of community markets) and by a more conservative work force.[38] For all the general prosperity it may have brought, therefore, European integration does not seem to have enhanced Belgian national unity.

Regional disparities have been a matter of increasing concern to the EC during the extended recession. The Community fears that such disparities might destabilize one or more member states (especially if combined with ethnic nationalism, as in Brittany) and discourage governments from adopting new integrative measures whose effect would be to remove a further range of policy instruments they had used to

counter the adverse domestic effects of integration. In fact, national governments have retained, contrary to the logic of integration and often under the critical gaze of the EC Commission, an impressive range of such instruments; this, too, helps account for the relative stability of regional income ratios over the last decade or so. By contrast, Community-level measures for regional development such as the Regional Development Fund and the European Investment Bank lack the resources to offset the regional effects of trade patterns and private investment decisions.

We are obliged, then, to conclude on a somewhat uncertain note concerning the applicability of the European Community's experience with regional inequalities to the North American case. First, that experience is varied, and admits of several contrasting interpretations. Secondly, it is not clear whether, in a disparate dyad, the smaller partner would retain the same licence to apply regional development policies that the EC members have so far allowed each other through tacit mutual consent.

What impact has the Community had on the governmental institutions and policy-making processes of its member states? It is important to note at the outset that, in contrast to what is envisaged for North America by advocates of free trade, the EC has created a complex set of institutions and a powerful legal framework for installing and managing the European economic union. Because the nations involved were, at the outset at least, relatively protectionist, committed to far-reaching economic integration and reasonably secure in their national institutions and traditions, they were willing to see develop a system of EC law that possesses the important attributes of unity, autonomy and supremacy (with respect to conflicting national legislation) and which has direct effect on members' societies.[39] Paradoxically, as Weiler observes, the emergence of this "constitutional/federal" legal system and the accompanying "normative structure" is balanced by ever-closer national control exercised through an "intergovernmental/confederal" decision-making process.[40]

How European governments have coped and adjusted in this EC institutional environment should give some hints as to possible developments in North America, even if the equivalent institutional pattern is only likely to emerge if Canadian-American integration moves well beyond free trade. The extensive European literature describes a continuing bureaucratic-political struggle for influence within governments attempting to establish effective control over the inflow and output of Community policy. This struggle has had a significant impact on policy making within each member government.

The prevailing experience has been one of increased executive dominance. In most countries European policy matters have remained confined to a small group of officials. The preparation of national policy

positions is usually the business of senior officials, without the minister's direct involvement. And interdepartmental differences are often settled outside the formal cabinet structures.[41] Control over EC-related policy by the specialist executive has been rendered more difficult as both the volume and the politicization of European issues have increased, but the underlying reality has not changed. Whatever broad trend there has been in the western European states toward executive dominance and government by bureaucratic politics has been reinforced by their participation in the Community. As three Danish scholars noted, "the Community, as a decision-making system, favours the Executive."[42]

With respect to the making of European policy, the struggle for influence within the executive has been indistinguishable from the effort to develop a coordinating mechanism. Some member states, such as France and Britain, managed to centralize EC policy making through specially created agencies attached to the Cabinet Office (UK) or the presidency (France), at the expense of both the traditional coordinators of foreign policy (the Foreign Office and the French Ministry of Foreign Affairs) and the major economic departments. Where the system has remained less centralized (Germany, Italy, the Netherlands) coordination is attempted either through informal interdepartmental agreements (Italy) or the formal designation of a key ministry as *primus inter pares* (the Foreign Ministry in the Netherlands, the Economics Ministry in West Germany and Denmark).[43]

On the whole, the French and British approach seems to produce more cohesive policy. Coordination by formally or informally dominant departments or by interdepartmental negotiation frequently produces immobility or disarray, each department presenting a different face to the Community. While canny governments can play this to advantage, their persistent search for coordination suggests that they are aware of the limitations of intramural chaos.

One way or another, then, European governments have adapted their institutions and practices to the fact of Community membership. They have not obligingly cooperated in their own demise, but have incorporated Community politics into their own systems. Even though faced with new constraints, they remain the major players, endowed as they are by the EC itself with new resources, some of which can be deployed against domestic opponents. For example, governments may invoke the need to conform to EC legislation or norms in order to sell unpleasant policies to recalcitrant domestic audiences. The West German government used this device in the case of a tax reform whch it had been pursuing for its own domestic reasons.[44] Such behaviour is characteristic of governments in settings of complex interdependence. It might be expected increasingly of Canadian-American relations, with the qualification that a European government will find it easier to justify a domestic policy by invoking the Community than will a Canadian gov-

ernment by invoking the United States. The multilateral setting makes a difference.

Allowing for some nuances, then, governments in the EC have maintained their strategic position as gatekeepers between the national and the international political arenas. As Sasse notes: "Although it bites deeply into national political and administrative life, the European integration process is still very largely regarded as an external process, and has not been internalized by governments."[45] National bureaucrats have shown resistance to becoming "Europeanized," and the politics and administration of each state continue overwhelmingly to reflect national traditions, outlooks and political forces.[46] In sum, adaptation to the Community has been significant, but in essence it amounts to a successful strategy of survival on the part of the national executive.

The other side of executive dominance is legislative decline, and here again the EC's effect seems to have been to reinforce the prevailing national trend. As Sasse observes, the "loss of importance on the part of national legislative bodies" seems an "unavoidable corollary of the logic of supranational integration."[47] The parliaments, especially of the six original EC members, seem to accept that their traditional impotence in foreign policy extends to Community matters as well. Governments' largely successful attempts to contain discussion of EC issues within the executive and to evade public debate undermine parliaments' capacity to hold them accountable.[48] Membership in EC has had three main consequences for parliaments: it has deprived them of certain legislative and budgetary powers through the direct effect and supremacy of Community law; it has obliged them to adjust their relations with their own executives, risking a further erosion of power; and finally, it has bypassed their effective control through the sheer volume and complexity of incoming EC business.[49]

The responses of European parliaments to these pressures have varied according to national political traditions. Among the original six members, with the significant exception of West Germany, parliamentary scrutiny of EC legislation has remained negligible. In the Federal Republic, however, the Bundestag's Economic Affairs Committee has been quite effective and the Bundesrat has given the Länder an important say in Community-related policy. The newer members, especially Britain and Denmark, have organized much more effective parliamentary mechanisms for scrutiny, not least because of vocal domestic opposition to membership. Nevertheless, the overall trend does seem to be a loss of parliamentary control over the considerable, and still increasing, portions of national business over which the EC has some jurisdiction.

Most of what has happened to European governmental institutions and processes because of Community membership is a consequence of the EC's own institutional complexity, its range of powers and the unique character of its legal system. Whether these observations about adapta-

tion, bureaucratic politics, coordination and, above all, executive dominance and parliamentary decline have much bearing on the North American case obviously depends on how far integration here moves toward requiring similar institutions.

Integration and Domestic Politics in Canadian-American Relations

Economic and political theories of international integration, as well as more than a quarter-century's experience of relatively advanced economic integration among the industrialized democracies of western Europe, have provided us, directly or indirectly, with a number of propositions linking international integration and domestic politics. To what extent do some of these ideas aid our understanding of the consequences, for Canadian domestic politics, of increased North American integration? We must be cautious when it comes to making comparisons. In the first place, the sophistication and abstraction of economic and political theories of integration tend to disguise their thin empirical grounding: they are based on very few real world cases and very few tests. Secondly, the application of European findings to the North American setting can present some difficulties.

There is little doubt that the two regions have many features in common. Both consist of highly industrialized, interdependent states with the mixed capitalist economies and pluralistic, competitive political systems characteristic of the Western world. On the other hand, in striking contrast to western Europe, the North American system is: (a) bilateral (although Mexican participation is envisaged in some integration schemes); (b) enormously disparate in the economic and military power of the two states; (c) relatively isolated from external economic dependence and diplomatic penetration; (d) historically pacific; (e) lacking in significant bilateral institutions; (f) endowed with a unique "diplomatic culture" which stresses problem solving, quiet diplomacy and informal transgovernmental links;[50] and (g) marked by an unparalleled density of transnational exchange and communication in goods and services, people and information. Given the uniqueness of the North American system, some of the general theoretical notions reviewed above, as well as the EC experience, may have limited application.

With these reservations in mind, let us begin by looking at the likely effects of integration on the institutions and processes of Canadian government. On the formal institutional plane it is unlikely that the more modest levels of integration currently under discussion would bring about significant change, at least in outward appearances. It cannot be claimed that EC membership has had much of a formal institutional effect on the western European governments. If, on the other hand,

Canadian-American integration goes beyond free trade or a customs union toward positive policy integration, the implications could be far-reaching for some of the basic institutions of parliamentary government and for the federal system. It is unlikely that more advanced levels of integration could be managed without supranational institutions of some sort, endowed with the equivalent of the EC's legislative authority. As in the case of Britain in the EC, this would challenge the supremacy of Parliament and force it into the role of scrutinizing incoming legislation which it was in fact bound to accept.

Even at the more probable integrative stages (free trade, customs union or common market) it is likely that the Canadian government would witness a further strengthening of the federal executive relative to both the federal Parliament and to the provinces, even if this development did not show up as a formal institutional change. The degree of federal executive dominance, depending as it does on the scope and level of Canadian-American integration, should be measurable in terms of specific policy sectors. At the free trade level these would be the sectors most closely linked to international commerce. Of course, in a pure free trade setting what is "trade-related" tends to be defined rather generously, so that such matters as fiscal policy, regional development, energy and environmental policy, insofar as they impinge on competitiveness, are sectors where the federal executive might appeal to the exigencies of the U.S. relationship against the jurisdictional or political claims of provinces or Parliament. At higher levels of integration such appeals might extend to labour, investment and energy policy, occasioning conflict with the provinces in particular.

Executive dominance, as the EC experience demonstrates, is sustained by: the technical, bureaucratic character of the issues, and their sectoral specificity; the vestigial "foreign policy" component in governments' perception of integration-related issues, which leads them to seek unified executive action at the expense of excessive domestic consultation; and the corporatist nature of interest groups' association with the integration process, in which typically they seek access and influence through bureaucratic rather than parliamentary channels. All these elements are characteristic of Canadian-American relations, and would surely be fortified in a closer economic arrangement. If, moreover, such an arrangement seemed to give Canada privileged access to American economic decision making (the "closer-is-safer" argument of many free-trade advocates), the likely beneficiary would be the Department of External Affairs, the Prime Minister's Office, or whatever department established itself as the coordinator of Canada–U.S. policy. The effect would be to give the executive even more resources and less accountability to Parliament.

A significant increase in North American integration, especially if it goes beyond a customs union, can be expected to produce intense

intramural manoeuvring within the executive over the control of integration-related policy, both outgoing and incoming. The system of policy coordination that emerges will have something to do with the characteristics of the sectors involved in integration, as these will determine which departments or agencies have the most at stake and the most leverage in their pursuit of influence. Beyond this, however, if we are to judge from European experience or from postwar Canadian practices, several outcomes are conceivable. One possibility is "invisible coordination," Italian-style, reminiscent of what Dewitt and Kirton describe as the "competitive fragmentation" of the Diefenbaker era, when various federal departments, in effect, conducted their own foreign policy.[51] Another is the "harmonious segmentation" of the St. Laurent period, akin to West German or Dutch European policy making, in which interdepartmental conflict was managed by a central political body. A third would be coordination by a dominant ministry such as External Affairs, perhaps challenged by central political agencies, as was the case in the middle Trudeau years and for a certain time in West Germany. A fourth pattern might be the tight central political control attempted at various times under Trudeau, which resembles the French and British systems for European policy. A safe prediction is that if integration ever moves beyond the customs union stage the pressures for strong central coordination (in the name of the "national interest") will intensify, as will the inter-agency rivalries for the job.

As far as the effectiveness of government is concerned, Canada seems a good testing ground for the notion that participation in international economic integration constrains the domestic regulatory and redistributive role of national governments. To the extent that North American market integration would require enforceable rules about fair competition in a free trade environment, or to the extent that the process goes beyond this to the harmonization or integration of policies, the Canadian government might be obliged to abandon many of its traditional interventionary instruments. Once the barriers to free movement of goods, people, capital and services have been removed, attention naturally turns to other forms of market distortion, most of which relate to what governments do: procurement policies, tax structures, equalization payments, regional subsidies, environmental regulation and other such activities. The Michelin case (regional subsidy and American countervail) is a striking foretaste of the sort of pressure that free trade would put on the federal government's industrial and regional role.

The fears expressed in nationalist writings as to the demise, under conditions of closer North American integration, of the Canadian public enterprise tradition or the decline of federal power vis-à-vis the provinces may seem exaggerated.[52] Nevertheless, it does seem plausible that as the smaller partner with proportionally the more elaborate system of federal economic intervention, Canada will have to do the bulk of the

adjusting to pressures for "fairer competition." In that sense "Canada would surrender a measure of political independence to the United States with free trade, as the Canadian socio-economic policy environment would have to be brought into and kept in rough accord with that of the much larger neighbour. Among other things, Canada would be required to make wage and tax rates and welfare policies conform to American practice of the day and to follow all important changes in the United States with virtually identical changes in Canada."[53] Having adapted and conformed to the requirements of continental free trade to that extent, would the federal government still have the capacity to offset regional inequalities and political fragmentation in Canada? Is seems likely that, even if Canadian-American integration were to be limited to free trade, major questions would be raised by each side about the fairness of the other's practices concerning such matters as subsidies, government procurement, taxation, resource pricing, investment and the exchange rate. Even if Canada were to exact a quid pro quo from the United States in bargaining over such issues, it would be right to ask if the changes Canada was obliged to make were consistent with its tradition of national welfare and public enterprise.

Let us turn now to the effects of North American integration on Canadian political society, beginning with the critical issue of the costs and benefits. The general expectations being that these costs and benefits will, at least in the short run, be distributed unequally, what are the implications for domestic political stress and fragmentation?

The main socio-political effect is almost certain to flow from the impact of integrative measures on patterns of investment and employment within Canada. Most commentators on North American free trade proposals assume that agriculture will not be included (removing a potentially large and contentious bilateral issue and a major regional problem) and that Canadian resource industries will gain through cheaper capital goods imports (their access to U.S. markets being already free of tariffs in most cases). But the critical sector is clearly secondary manufacturing, within which the likely distribution of winners and losers from both static and dynamic effects is less easy to predict, although the testimony of industrial spokesmen concerning the prospects of free trade provides some indication.[54] It is here, particularly in those industries that retain significant tariff protection, account for some 15 to 20 percent of Canadian employment, and are concentrated in central Canada, that the bulk of the specialization and restructuring will occur. If the Auto Pact is any guide to the probable effects of either sectoral or comprehensive free trade, it shows that industrial rationalization through market forces (or, more accurately, through American multinationals' reading of those forces), is not an unambiguous improvement on national efforts to manage industrial development.

An imponderable here is the likely effect of free trade on American investment in Canada. Proponents of free trade argue that it will not result in a southward shift of American capital, and the Senate committee's report even suggests it will remove the incentive for some Canadian investors to locate in the United States. Paradoxically, nationalists, whose principal target has been American investment in Canada, raise the spectre of its southward flight if tariffs are removed.[55] At least, one might reply, this would reduce the much-decried influence of the American-affiliated business elites in Canadian economic councils. In any case, what sort of investment decided to stay, and where, would be decisive for domestic economic development and, indirectly, for political fortunes.

On the likely regional impact of continental integration there is considerable debate. Some observers expect free trade to benefit those peripheral areas (the Maritimes, the West) which have long favoured it. The consequence, they argue, would be an easing of regional economic imbalances and political tensions.[56] Others expect the important gains, expecially in the long run, to go to the dominant manufacturing centres of Ontario and Quebec.[57] Ontario is indeed ideally placed in the heartland of the North American market. All regions would gain something from free trade, then, but central Canada, after a period of readjustment, might see percentage gains in real per capita income up to twice as large as those experienced by the peripheral provinces.[58] If we consider this latter thesis in connection with the earlier claim that the federal capacity for regional redistribution may be threatened, we have a formula for heightened interregional stress. A further reinforcement of this tendency to fragmentation could derive from increased investment and trade links (especially in resources) between the provinces and the United States under free trade.

In the face of this argument, is there anything to be said for the proposition that integration stabilizes domestic politics? Certainly if Canada were to experience the 10 percent gain in its standard of living foreseen by some advocates of free trade, it would provide a clear test for the theory that integration pacifies at least those domestic tensions that have their roots in scarcity. But what of tensions that have other sources? Might not integration exacerbate these? A possible increase in regional disparities, the emergence of stronger provincial or regional ties to the American economy, the continued rise of provincial or regional political identies and, conceivably. a general sense of growing alienation on the part of Canadians from a federal government preoccupied with the technocratic politics of North American integration — these considerations need to be balanced against the notion of free trade and prosperity as a domestic panacea.

Another possible domestic effect of integration, which sits uneasily with some of the foregoing observations, is a consequence of the power-

ful pressures for homogenization in the markets, economic structures, policies, tastes and cultures of the states involved — pressures which are significant even at the modest free trade level. Such forces will be more compelling on the smaller partner in a disparate bilateral economic relationship than in the multilateral, relatively egalitarian EC, where indigenous national institutions and cultural traits are more varied and deeply rooted than they are in Canada. The prospect is, then, that under the free play of continental market forces and the discipline of common policies, Canadians will become not only more alike, but more like Americans than they already are. The implications for the character of Canadian political culture and institutions, and for Canadian independence are obvious.[59]

There is, however, a counter-argument, which holds that such pressures can stimulate a nationalist reaction and even bring about a reversal of integration. One political scientist has argued that, especially in "disparate dyads" like North America, absorption of the smaller partner by the larger is virtually impossible.[60] Another sees the rise of economic nationalism in English and French Canada as "a reaction to the intensification of integration on the North American continent; it reflects the ambitions of these groups to possess advanced industrial cores in their own right."[61] Whether or not one agrees with the specifics of such an analysis, it is a healthy antidote to the economic determinism that underlies both the stabilization and the homogenization theses.

Conclusions

Given the nature of the central question in this paper and the character of the literature that seems most relevant to it, the foregoing analysis has necessarily been little more than an exercise in exploring themes and posing questions for further research. If the central question is simple to formulate, nevertheless its terminology conceals a complex of ambiguities. The economists proved helpful in clarifying the range of meanings attached to the notion of economic integration. Their multi-stage model of integration, based on a broad distinction between negative and positive integration, proved useful in separating the plausible from the fanciful among concepts of North America's economic future, and in suggesting the probable institutional implications of the various alternatives.

As far as the other term of the question was concerned, this study simply adopted a conventional distinction between Canadian government institutions and processes and the broader political society, and searched within each for sensitive points where the effects of integration might logically be expected to be felt. The search was guided by what the economic and political theorists and the analysts of European integration thought significant in domestic effects within their respective intellectual domains.

It should be evident that with respect to several themes linking international integration and domestic politics there are interesting continuities running through the theoretical writings of economists and political scientists, and the reflections of observers of the European Community and Canadian-American relations. Of these, the most striking is the theme of fragmentation or interregional stress as a possible political consequence of the unequal domestic distribution of the costs and benefits of economic integration. Another is the theme of political stabilization and political-cultural homogenization, both of which are linked to the social effects of the prosperity flowing from integration. A third common theme concerns the constraints on, and internal tensions within, national governments as they attempt to function in a context of intensified transnational linkages and emerging supranational authority. Two sub-themes of particular importance in this connection are the decline of government's domestic redistributive role and the reinforcement of the executive's primacy over the legislature.

Drawing out these and other themes is often tantamount to articulating the unspoken assumptions of the theoretical literature we have surveyed. But each theme can be recast in the form of one or more hypotheses which can serve to guide future research in this area. Among these, priority might be given to refining and testing the proposition which seems plausible enough at first glance — that participation in an integration project increases interregional stress within a country. This hypothesis appears relatively easy to express in precise, measurable terms and speaks directly to the issue of national unity so central to Canadian politics.

If there remains something of an air of unreality about much of this discussion it is because few of us can imagine Canadian-American integration going much beyond what is currently proposed, and because what is currently proposed seems, in turn, little removed from what presently exists (or will, once the Tokyo Round's provisions come into full effect in 1987). It is tempting for Canadians to conclude, indeed, that the domestic political effects attributable to the adoption of free trade with the United States would be too marginal to notice, while those flowing from full economic union would be too far-reaching to contemplate. This position, however, is a little facile. The symbolism and the political costs associated with removing the last, and most sensitive, layers of protection would make the move to free trade more than an inconsequential shift. Even if the impact on government institutions and processes proved negligible, the political consequences of the static and, more importantly, the dynamic effects for interregional and other social conflict could be considerable.

As for "thinking about the unthinkable" — that is, forms of Canadian-American integration going beyond a customs union and toward full

economic union — a certain prudence dictated by what we do not knowabout the political dynamics of international integration would suggest it is worth our while to engage in a little speculation. Central to our uncertainty is the question of the inevitability of an integration process once begun. It can be argued that the apparent stagnation of the European Community since the early 1970s has laid to rest any remaining claims about "automaticity" or "spillover." On the other hand, what now seems moribund and drifting had seemed to be vital and destined for economic and political union only a decade or so before. What would we say of the prospects for North American integration if it were soon to encounter favourable conditions equivalent to those of Europe in the early 1960s?

The special significance of this question for Canadian domestic politics derives from its institutional implications. To the extent that there is a correspondence between the level of integration and the scope and degree of authority with which common institutions are endowed, we may begin to play variations on those propositions which describe a diminution of national governmental powers, the interpenetration of domestic and international issues in policy making, and the decline of accountability to parliaments. The unknown element here, however, is whether the link between higher levels of integration and greater supranational authority necessarily applies in a bilateral relationship as it seems to in multilateral systems such as the European Community. Here there are really no precedents to guide us. A Canadian-American common market or economic union would be unique in history — a bilateral, highly disparate relationship between two industrialized democracies with an extraordinary range and density of transnational ties. Would it develop semi-autonomous governing institutions with direct authority over each society? Or could such high levels of formal economic integration be attained and managed through classic intergovernmental bargaining in which each side's formal veto on decisions was supplemented, in practice, by considerable national discretion as to their domestic application? In either instance, would the disparity in power between the two partners and the consequent asymmetry of domestic effects spell the effective end of Canada's national distinctiveness and independence? It is difficult to see how much that is distinctive in Canadian political institutions, society and culture could survive full economic union with the United States, whether this were the product of a mutual long-term design or simply the outcome of a little understood process that moved relentlessly forward from its beginnings in simple free trade. These are all empirical questions, to which an historical record short of examples and a body of social science theory thin on tested propositions are both poor guides. For the policy maker, the prudent conclusion is to beware those who proclaim certainties in such matters, and to proceed with extreme caution.

Notes

This paper was completed in February 1985.

1. One of the few acknowledgments by political scientists of this shortcoming is S.A. Scheingold, "Domestic and International Consequences of Regional Integration," *International Organization* 24 (Autumn 1970): 978–1002.
2. For a survey of the literature on the political impact of the European Community, see C.C. Pentland, "The Political Consequences of Economic Integration: Political Science and the Case of Western Europe," *Journal of European Integration* 3 (May 1980): 363–79.
3. P. Robson, *The Economics of International Integration*, 2d ed. (London: Allen and Unwin, 1984), p. 1.
4. The extent to which positive integration modifies the working of the market mechanism is subject to some debate. See S. Holland, *Uncommon Market* (London: Macmillan, 1980), pp. 59–61.
5. J.L. Pelkmans, "Economic Theory and the Impact of the Customs Union and the Common Market," paper presented to the European-American Seminar, Tilburg, Netherlands, June 1979, pp. 6–9.
6. B. Balassa, *The Theory of Economic Integration* (London: Allen and Unwin, 1962).
7. Pelkmans, "Economic Theory," pp. 7–10, and H. Shibata, "The Theory of Economic Unions: A Comparative Analysis of Customs Unions, Free Trade Areas, and Tax Unions," in *Fiscal Harmonization in Common Markets*, edited by C.S. Shoup, vol. 1, (New York: Columbia University Press, 1967), pp. 145–264.
8. Robson, *The Economics of International Integration*, pp. 59–61.
9. Representative of the nationalist position is W.L. Gordon, *Storm Signals* (Toronto: McClelland and Stewart, 1975) and the case made by the Trudeau government for its Third Option policy in Mitchell Sharp, "Canada–U.S. Relations: Options for the Future," *International Perspectives* (Special Issue, Autumn 1972): 15–16. Such arguments echo the position of American liberal internationalists such as George Ball, who asserted, in *The Discipline of Power* (Boston: Little, Brown, 1968) that North American free trade would lead inevitably to a common market, to economic union and ultimately to effective political union. For an able refutation of such arguments, see P.V. Lyon, *Canada – United States Free Trade and Canadian Independence*, study prepared for the Economic Council of Canada (Ottawa: Minister of Supply and Services Canada, 1975). Professor Lyon's analysis proved especially influential on the Standing Senate Committee on Foreign Affairs. See its *Report on Canada–United States Relations*, vol. 3, *Canada's Trade Relations with the United States* (Ottawa: Minister of Supply and Services Canada, 1982), especially Part VI.
10. The Conservative government's discussion paper on trade policy mentions a sectoral approach, along with full free trade and a framework agreement, as three options for trade with the United States. See *Globe and Mail*, January 30, 1985; *Financial Post*, February 2, 1985.
11. On the problems of the Auto Pact, see J.F. Keeley, "Cast in Concrete for All Time? The Negotiation of the Auto Pact," *Canadian Journal of Political Science* 16 (June 1983): 281–98, and G.R.Winham, "The Canadian Automobile Industry and Trade-related Performance Requirements," *Journal of World Trade Law* 8 (November/December 1984): 6.
12. For an unusual argument that sectoral free trade need not lead to comprehensive free trade, see "Sectoral Free Trade with the United States: A First Step Toward a Broader Agreement?" *Bank of Montreal Business Review* (June 1984): 2–3. More skeptical is A.Westell, "Economic Integration with the U.S.A.," *International Perspectives* (November-December 1984): 19.
13. Standing Senate Committee on Foreign Affairs, *Canada–United States Relations*, 3 vols. (Ottawa: Queen's Printer, 1975, 1978; Minister of Supply and Services Canada, 1982); Economic Council of Canada, *Looking Outward: A New Trade Strategy for Canada*(Ottawa: Information Canada, 1975); Atlantic Council Working Group on the United States and Canada, *Canada and the United States: Dependence and Divergence* (Cambridge, Mass.: Ballinger, 1982), pp. 16–18.

14. For a rare academic analysis of these proposals, see W.J. Feld and C. Brylski, "A North American Accord: Feasible or Futile?" *Western Political Quarterly* 36 (June 1980): 298–311.

15. On the theory of dominant coalitions, see P. Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1977), chap. 9.

16. Pelkmans, "Economic Theory," pp. 9–10; Holland, *Uncommon Market*, p. 53: " . . . since much of integration theory has stayed at the level of customs union theory, this has meant that it has stopped where the important issues begin."

17. Robson, *The Economics of International Integration*, chaps. 5–8.

18. For brief reviews of this debate, see D. Pinder, *Regional Economic Development and Policy: Theory and Practice in the European Community* (London: Allen and Unwin, 1983), esp. pp. 25–32; Robson, *The Economics of International Integration*, pp. 110–16.

19. Robson, *The Economics of International Integration*, p. 57.

20. Ibid., pp. 110–11.

21. Holland, *Uncommon Market*, pp. 56–57.

22. The classic formulation is in E.B. Haas, *The Uniting of Europe* (Stanford, California: Stanford University Press, 1958): "Political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states" (p. 16).

23. See, for example, H. Wallace, W. Wallace, and C. Webb, eds., *Policy-Making in the European Community*, 2d ed. (London: Wiley, 1983), and G.G. Rosenthal, *The Men Behind the Decisions* (Lexington : Heath, 1975).

24. A pioneer in such work is Helen Wallace. See, for example, her monograph, *National Governments and the European Communities*, Chatham House/PEP European Series no. 21 (April 1973).

25. Scheingold, "Domestic and International Consequences of Regional Integration," p. 983.

26. For a recent exploration of these themes in the North American setting, see J. Pammett and B.Tomlin, eds., *The Integration Question* (Toronto: Addison-Wesley, 1984), esp. chap. 4.

27. On this theme, see D. Seers and C. Vaitsos, eds., *Integration and Unequal Development: The Experience of the EEC* (London: Macmillan, 1980).

28. Holland, *Uncommon Market*, p. 50.

29. A particularly illuminating case study is E.L. Morse, *Foreign Policy and Interdependence in Gaullist France* (Princeton, N.J.: Princeton University Press, 1973), chap. 6.

30. Haas, *The Uniting of Europe*, esp. chap. 8; L.N. Lindberg, *The Political Dynamics of European Economic Integration* (Stanford, California: Stanford University Press, 1963); and P.C. Schmitter, "Three Neofunctional Hypotheses about International Integration," *International Organization* 23 (Winter 1969): 162: " . . . members of an integration scheme — agreed on some collective goals for a variety of motives but unequally satisfied with their attainment of these goals — attempt to resolve their dissatisfaction either by resorting to collaboration in another, related section (expanding the *scope* of the original commitment) or by intensifying their commitment to the original sector (increasing the *level* of mutual commitment) or both."

31. Good general analyses of the EC policy process can be found in the chapters by Webb, Helen Wallace and William Wallace, in Wallace et al., *Policy-Making in the European Community*.

32. P. Maillet, *La construction européenne* (Paris: Presses Universitaires de France, 1975), chap. 1.

33. Holland, *Uncommon Market*, p. 139 (emphasis in original).

34. Ibid., p. 62.

35. D. Swann, *Competition and Industrial Policy in the European Community* (London: Methuen, 1983), esp. chaps. 4 and 5.

36. R.K. Carty, "Towards a European Politics: The Lessons of the European Parliament Election in Ireland," *Journal of European Integration* 4 (Winter 1981): 222–23, 235–36.

See also A. Coughlan, "Ireland" in *Integration and Unequal Development: The Experience of the EEC*, edited by D. Seers and C. Vaitsos (London: Macmillan, 1980), pp.127–28.

37. M.-J. Kiljunen, "Regional Disparities and Policy in the EEC," in *Integration and Unequal Development: The Experience of the EEC*, edited by D. Seers and C. Vaitsos (London: Macmillan, 1980), p. 212. See also Robson, *The Economics of International Integration*, pp. 124–27.
38. D. Powroznik, "European Community Investments and Regional Imbalances," paper presented at International Studies Association, Toronto, March 1979. For a more nuanced analysis, see M.Covell, "Belgium and the European Communities," in *The European Community at the Crossroads*, edited by N. Ørvik and C. Pentland, Canada-Europe Series no. 1/83 (Kingston: Queen's University, Centre for International Relations, 1983), pp. 20–32.
39. D. Lasok, "The Community Legal Order and Its Relation to the Legal Order of the Member States," in *The European Communities in Action*, edited by D. Lasok and P. Soldatos (Brussels: Bruylant, 1981), pp. 200–206.
40. J. Weiler, "Community, Member States and European Integration: Is the Law Relevant?" in *The European Community: Past, Present and Future*, edited by L. Tsoukalis (Oxford: Basil Blackwell, 1983).
41. Wallace, *National Governments and the European Communities*, pp. 37–38.
42. S. Auken, J. Buksti, and C.L. Sørensen, "Denmark Joins Europe," *Journal of Common Market Studies* 14 (September 1975), p. 23.
43. Ibid., pp. 17–55; see also, C. Sasse, "Formulation of National Policy on European Community Affairs," in C. Sasse, E. Poullet, D. Coombes, and G. Deprez, *Decision Making in the European Community*, (New York: Praeger, 1977), pp. 5–85.
44. D. Puchala, "Worm Cans and Worth Taxes: Fiscal Harmonization and the European Policy Process," in *Policy-Making in the European Community*, edited by H. Wallace, W. Wallace, and C. Webb (London: Wiley, 1983), pp. 247–50.
45. Sasse, "Formulation of National Policy," p. 66.
46. W.J. Feld and J.K. Wildgen, "National Administrative Elites and European Integration: Saboteurs at Work?" *Journal of Common Market Studies* 13 (March 1975): 244–65. For a broader perspective, see S. Hoffmann, "Reflections on the Nation-State in Western Europe Today," in *The European Community: Past, Present and Future*, edited by L. Tsoukalis (Oxford: Basil Blackwell, 1983), pp. 21–37.
47. Sasse, "Formulation of National Policy," p. 42.
48. Ibid., p. 72; see also H. Wallace, "Negotiation, Conflict and Compromise: The Elusive Pursuit of Common Policies," in *Policy-Making in the European Community*, edited by H. Wallace, W. Wallace, and C. Webb (London: Wiley, 1983), p. 72.
49. D. Coombes, "The Role of the National Parliaments," in C. Sasse, E. Poullet, D. Coombes, and G. Deprez, *Decision Making in the European Community* (New York: Praeger, 1977), pp. 311–13.
50. K.J. Holsti, "The United States and Canada," in *Conflict in World Politics*, edited by K.N. Waltz and S. Spiegel (Cambridge, Mass.: Winthrop, 1971), pp. 375–96.
51. D.B. Dewitt and J.J. Kirton, *Canada as a Principal Power* (Toronto: Wiley, 1983), pp. 199–229.
52. For example, G.Stevenson, "Continental Integration and Canadian Unity," in *Continental Community? Independence and Integration in North America*, edited by W.A. Axline, J.E. Hyndman, P.V. Lyon, and M.A. Molot (Toronto: McClelland and Stewart, 1974), p. 211, and J. Hutcheson, *Dominance and Dependence* (Toronto: McClelland and Stewart, 1978), p. 163: "The growth of American corporations and U.S. government influence in Canada has meant the displacement of the Canadian public enterprise culture."
53. H.H. Cody, "Canada in 1990: What Kind of Federation?" in Atlantic Council Working Group on the United States and Canada, *Canada and the United States: Dependence and Divergence* (Cambridge, Mass.: Ballinger, 1982), p. 49. Cody is drawing upon the conclusions of a report on free trade by the Canadian Manufacturers' Association,

given in testimony to the Standing Senate Committee on Foreign Affairs, December 9, 1980.

54. For a summary of such testimony, see Standing Senate Committee on Foreign Affairs, *Canada–United States Relations*, vol. 3, pp. 49–67.

55. On the southward shift of Canadian investment, see *ibid.*, p. 52. For nationalist concerns, see Gordon, *Storm Signals*, passim. Here again, the experience of the Auto Pact may be instructive. Winham notes "the well-documented failure of the vehicle manufacturers to locate in Canada the most modern and innovative parts of the industry," attributing this, in part, to "the inherent uncertainty of operating under the Auto Pact" (Winham, "The Canadian Automobile Industry").

56. H.E. English, "'National Policy' and Canadian Trade," in *International Perspectives* (March/April 1984): 4; Hon.R.Stanfield, testimony to Standing Senate Committee on Foreign Affairs, June 10, 1980, cited in *Canada–United States Relations*, vol. 3, pp. 70–71.

57. This is the conclusion of the Economic Council of Canada, *Looking Outwards*, and of R.J. Wonnacott, a leading academic proponent of free trade, in testimony to the Standing Senate Committee on Foreign Affairs, February 3, 1981, cited in *Canada–United States Relations*, vol. 3, pp. 72–74.

58. R.J. Wonnacott, *Canada's Trade Options*, study prepared for the Economic Council of Canada (Ottawa: Information Canada, 1975), p. 171.

59. See C.F. Doran, *Economic Interdependence, Autonomy and Canadian - American Relations* (Montreal: Institute for Research on Public Policy, 1983). A good recent expression of the opposite view is Westell, "Economic Integration with the U.S.A.," esp. p. 22.

60. N. Black, "Absorptive Systems Are Impossible: The Canadian American Relationship as a Disparate Dyad," in *Continental Community?*, edited by W.A. Axline, J.E. Hyndman, P.V. Lyon, and M.A. Molot (Toronto: McClelland and Stewart, 1974), pp. 92–108.

61. R. Gilpin, "Integration and Disintegration on the North American Continent," *International Organization* 28 (Autumn 1974): 857–58.

Canada, Congress and U.S. Foreign Economic Policy

JOCK A. FINLAYSON

Introduction

Few nations are as dependent on a single trading partner as is Canada. With more than two-thirds of Canadian exports sold to the United States and a similar share of our imports purchased from the same country, it is abundantly clear that both the state of the U.S. economy and changes in its commercial policies are matters of critical concern to Canada. Moreover, Canada's dependence on the United States and sensitivity to U.S. policies is not restricted to the sphere of trade alone. The Canadian dollar, for example, is highly sensitive to changes in the value of the U.S. dollar, partly of course because of the huge bilateral trade flow between the two countries. And as the largest importer of U.S. foreign capital and the industrial country most dependent on infusions of foreign investment, Canada must also pay close attention to how American policies and economic conditions might affect the ability or willingness of U.S. economic agents to invest abroad.

In recent years the U.S. Congress has assumed a more important role in the making of U.S. foreign economic policy, particularly in the area of trade. This has generally been seen as an unfavourable, or even ominous, trend by foreign governments, including the Canadian government, because of the widespread view that U.S. legislators do not understand or have sympathy for the interests of foreign nations. If the United States were to become more protectionist in trade policy, there is little question that this would be most strongly manifested within Congress. Indeed, the trade restrictions imposed by the U.S. in recent years have in large measure come about because of Congressional pressures and agitation. All this suggests that Canada, the industrial country most

dependent on the U.S. economy, should pay closer attention to the evolving role of Congress in the U.S. international economic policy process.

This paper explores the recent evolution of Congress's role in U.S. foreign economic policy making. It does so from the perspective of Canadian interests and policy concerns. The paper is divided into two sections. The first and longest section describes the growing importance of Congress in U.S. foreign economic policy in general, and seeks to provide a rough forecast of the kinds of actions that Congress is likely to take in the area of trade policy in particular over the next several years. Congressional trade policy actions can have a serious impact on Canadian economic interests, and thus deserve close scrutiny by Canadian policy makers. The second section analyzes the options available to Canada to affect the Congressional policy-making process in ways supportive of Canadian interests. A number of commentators have argued that both the Canadian government and private Canadian interests should be willing to participate more vigorously and openly in lobbying Congress in order to promote and protect their interests. Others have cautioned that this approach carries with it certain dangers that must be understood before such lobbying is undertaken. An effort is made to assess the scope for Canadian lobbying and to discuss the probable costs and benefits of various options for dealing in the future with an increasingly assertive and powerful U.S. Congress.

A major part of the research undertaken for this paper took the form of interviews conducted with a large number of knowledgeable U.S. and Canadian officials and private individuals. A ten-day research trip to Washington was supplemented with interviews in Ottawa. Among those interviewed were U.S. Congressional staff, U.S. governmental officials involved in trade and other foreign economic policy areas, consultants and other outside experts based in Washington and Ottawa and officials of the Canadian government in Ottawa and at the embassy in Washington. The author is grateful for the valuable information and insights obtained through these interviews.

Congress and the Making of U.S. International Economic Policy

The conduct of U.S. foreign policy has always been profoundly influenced by the fact that the legislative and executive branches of the American government are separate and equal under the U.S. Constitution, with the result that Congress is entitled by the Constitution to exercise important independent powers in respect of the formulation of U.S. policies toward the outside world. Students of U.S. foreign policy can cite many instances where the independent role and powers of Congress have served to confound the foreign policy objectives of U.S. presidents.

In 1919, for example, President Woodrow Wilson watched helplessly as the Senate refused to accept U.S. membership in the League of Nations, the international institution fervently promoted by Wilson as the solution to the problem of international conflict. Some 60 years later, President Jimmy Carter was forced to endure the embarrassment caused by the Senate's refusal to ratify the second Strategic Arms Limitation Treaty, which had been painstakingly negotiated with the Soviet Union over a period of several years. Nor has Congress refrained from complicating and thwarting the goals of U.S.administrations in the area of international economic policy. In the period just following World War II, Congressional hostility to the proposed International Trade Organization, which would have required participating countries to bring their domestic trade laws into conformity with an agreed international code of conduct, forced President Harry S. Truman to announce that the United States would be unable to join an organization that was largely devised by its own negotiators. Twenty years later, Congress refused to accept some of the results of the Kennedy Round of trade negotiations held under the auspices of the General Agreement on Tariffs and Trade (GATT), and the United States was therefore unable to abide by the terms of an elaborate international agreement concerning anti-dumping measures of which Washington itself had been the major proponent.

Innumerable other examples could be cited, but the basic point is clear: the international economic policies of the United States are greatly affected by the views and priorities of U.S. legislators, and foreign governments must always bear in mind the independent role of the U.S. Congress when conducting international economic diplomacy with Washington. No country has more reason to be aware of this fact than Canada. The importance to Canada of its extensive trade and investment linkages with the United States can scarcely be overstated, and Canadian policy makers would have enough to worry about in seeking to manage Canada–U.S.economic relations if only the executive branch were involved in making U.S. international economic policy. Instead, Canada (and other foreign governments) must also pay attention to developments in Congress, in the various independent and quasi-independent regulatory bodies that affect U.S. foreign economic policy, and indeed even in the courts, which are also at times significant players in the sphere of international economic affairs. The heavy involvement of Congress in the making of U.S. foreign economic policy tends to differentiate the United States from other major industrial nations. "No other national legislative body more extensively creates, revises, and offers critiques on a nation's international economic policy than does the Congress of the United States."[1]

Congress has many specific powers and responsibilities over American international economic policies. For example, all international treaties entered into by the United States must be approved by the

Senate (by a two-thirds vote), as must senior officials appointed by the president to be ambassadors, secretaries of government departments, and assistant secretaries. Funds paid by the U.S. government to international economic institutions such as World Bank and the International Monetary Fund must be approved by both the Senate and the House of Representatives; in recent years the executive branch has faced mounting difficulties in obtaining Congressional approval for funding such international agencies.

Generally speaking, under the U.S. system of government, the division of powers between the executive and legislative branches ensures that Congress will have an important say in matters related to international economic policy. However, the U.S. Constitution goes further and makes clear that the powers of the legislative branch in this area are *paramount*. Article I, section 8 of the constitution explicitly gives Congress the power "to lay and collect Taxes, Duties, Imposts and Excises," and "to regulate commerce with foreign Nations and among the several States. . . . "[2] Thus the Constitution specifically empowers the legislative branch to write U.S. trade laws, and provides that the executive branch may only conduct international trade negotiations within the parameters periodically laid down by Congress. This is unquestionably the most significant power of Congress in the broad area of international economic relations; it is also the chief source of concern for foreign governments and the major focus of the present study.

It is not possible to discuss here in detail the historical evolution of Congress's role in the formulation of U.S. trade and other international economic policies.[3] Instead, an overview is provided of the major phases and turning points in Congressional involvement in U.S. foreign economic policy in the 20th century. This is followed by a lengthier discussion of the major developments which have served to alter and to strengthen the role of Congress in U.S. trade policy in particular since the early 1970s.

Congress and Trade Policy Before the 1970s

A country's trade policy includes all those actions taken by the state that are "intended to affect the extent, composition, and direction of its imports and exports of goods and services."[4] This definition encompasses a large number of specific policy actions that either bear directly upon trade policy, or else have an important impact on trade flows even though their primary purpose may be to achieve objectives in other policy spheres (e.g., consumer product safety standards may restrict imports, but this is not their chief objective). According to this broad definition, United States trade policy can be said to include the following:[5]

- Laws that regulate and control the flow of imports directly, such as tariff levels, import quotas, so-called "voluntary export restraint" agreements, anti-dumping and countervailing duty laws, "escape clause" laws, and other laws which can be used by U.S. parties to petition for import relief of various kinds;
- Laws and regulations that indirectly affect imports, such as environmental laws, health and safety standards, and other domestic laws and practices that have an impact on trade;
- U.S. laws, treaties and policies that relate to U.S. involvement in international institutions and agreements that are relevant to international trade, such as the General Agreement on Tariffs and Trade, international commodity agreements, and bilateral trade agreements with Canada and other countries;
- Laws and policies that aim to promote, regulate or otherwise affect the export of American goods and services abroad, including export financing arrangements, tax assistance for exports, and legislation that restricts the ability of U.S. economic agents to conduct trade with foreign nations.

Congress has long been involved in and concerned with these disparate elements of U.S. trade policy, mainly because it considers and passes the national legislation that in effect defines what U.S. policy consists of in all these areas. However, although Congress is clearly at the centre of trade *law making*, the *administration* of U.S. trade law and policy since 1934 has been largely the responsibility of the executive branch of government.[6] Congress passes trade and trade-related laws, but the executive branch implements and administers them, albeit under varying degrees of Congressional scrutiny. Efforts by Congress to require the U.S. government to enforce trade laws in a more vigorous manner have increased greatly in recent years, at the same time as tariffs have been lowered and non-tariff barriers have become more important instruments for the protection of U.S. industries from foreign competition.

For much of its history, the United States depended heavily on the tariff to provide revenue for the federal government.[7] In the mid-1800s, for example, up to 90 percent of all federal revenues derived from tariffs. Like many developing countries today, the United States in the 19th century embraced the "infant industry" doctrine, which holds that high tariffs and other protectionist policies should be employed to promote the development of key indigenous industries until such time as they are sufficiently strong to compete internationally. Most U.S. industries were solidly protectionist at this time and, in concert with various agricultural interests, lobbied successfully for high tariffs throughout the 1800s and early 1900s. Congress periodically passed revised Tariff Acts which established new rates of duty on literally thousands of products. The 1816

Act "placed almost prohibitively high duties on woolen, cotton, and iron manufactures."[8] In 1897, Congress delegated authority to the president to negotiate trade treaties with foreign nations, but it refused to ratify the resulting agreements. In 1909, it stripped the president of authority to negotiate such trade treaties, and inserted a provision into the Tariff Act that allowed tariff rates to be increased sharply on short notice if Congress felt this was necessary. In 1922, it passed a bill that raised tariffs on most U.S. imports. Indicative of Congress's extraordinarily detailed involvement in determining U.S. tariffs at the time was the fact that the Senate alone made some 4,200 floor amendments to the 1922 bill, all of which increased duties on particular products.

A watershed in the evolution of both American commercial policy and the role of Congress in determining that policy was reached in 1930 with the passage of the infamous Smoot-Hawley bill, which dramatically boosted U.S. tariffs.[9] Tariff schedules for more than 21,000 products were included in the bill, and Congress increased duties on almost all of them. The average U.S. tariff on dutiable imports was raised to its highest level in the 20th century by this bill, which was vigorously advocated by Republican senators and congressmen from northern industrial states, who happened to control both the House Ways and Means Committee and the Senate Finance Committee, the two committees of Congress with jurisdiction over U.S. tariff policy. Republican majorities in both the House and Senate ensured passage, although the margin in the latter body was only two votes. (The Republican president, Herbert Hoover, also favoured the bill.) Most Democrats in both houses of Congress opposed the bill, but were outnumbered by the more protectionist-leaning Republicans.

Smoot-Hawley was unquestionably the high-water mark of U.S. protectionism, and it profoundly influenced prevailing views of the role of Congress in U.S. commercial policy. Contemporary observers of Congressional politics argued that the legislative branch was so responsive to those interest groups anxious to obtain a measure of protection from foreign competition that the United States could expect no other kind of trade policy.[10] The concentrated pressures brought to bear by those seeking import protection were far more powerful than the general interest of American consumers in increased competition and consequent lower prices. Both scholars and the press focussed as well on the contributions made to the campaigns of various congressmen and senators by industrial groups seeking protection.[11] According to one political scientist of the time, legislators tended to adopt a posture of "reciprocal non-interference," whereby they all would agree to accept each other's requests for protection of particular industries in their various districts and states. This kind of "log-rolling" meant that large numbers of products would likely have their tariffs raised whenever Congress considered major changes in U.S. tariff law.[12]

Shortly after the passage of Smoot-Hawley, Canada and many other countries moved to raise their own tariffs in retaliation, and the resulting sharp decline in international trade contributed significantly to the severity and durability of the world depression.[13] There was widespread recognition in Congress and throughout the United States that the setting by Congress of actual tariff levels on thousands of individual products was an absurd and unworkable way to fashion American commercial policy. Moreover, the prosperity that the Republicans had promised would follow from the passage of Smoot-Hawley failed to materialize. In the 1932 election, the Democrats captured both houses of Congress and this, along with the ascension of Franklin D. Roosevelt to the presidency, set the stage for a fundamental change in U.S. trade policy. Working closely with Democratic leaders in Congress, Roosevelt secured passage of the Reciprocal Trade Agreements Act in 1934. This Act gave the President authority to negotiate bilateral trade agreements on a reciprocal basis; tariff cuts of up to 50 percent were permitted. When Congress considered the Act, it refrained for the first time from debating tariff rates on various products, and instead focussed on the constitutionality of delegating such broad tariff-cutting powers to the executive branch. In the end, Congress limited the president's authority to cut tariffs through bilateral trade agreements to three years. Nonetheless, the 1934 Act was a key turning point in the evolution of the role of Congress in the making of U.S. foreign economic policy. "The law was the first time that the Congress as a whole recognized that it was not suited to set tariffs itself on an item-by-item basis; and for the first time, Congress delegated advance power to the President to raise or lower all rates . . . subject to no checks other than a consultative one." Equally important, the Act changed the nature of the debate over protection in Congress: "the argument for protection, for the first time, became an argument of exception rather than principle."[14]

Congress agreed to extend the Reciprocal Trade Agreements Act in 1937, 1940 and 1943 (in the latter case for two years only). By 1945, the U.S. had negotiated 28 bilateral agreements with foreign states, including Canada,[15] and through these agreements tariff rates on some two-thirds of U.S. dutiable imports were cut by more than 40 percent.[16] In 1945, Congress passed a bill extending the Trade Agreements Act for another three years, and this time a significant number of Republicans joined their Democratic colleagues in voting to grant the president authority to reduce U.S. tariffs by up to 50 percent of their 1945 levels. In 1947, the U.S. joined 22 other countries in negotiating the General Agreement on Tariffs and Trade (GATT), which consisted of both a code of trade conduct and a series of tariff reductions. More than half of U.S. dutiable imports were covered, with the average tariff reduction in the range of 35 percent.[17]

The GATT was an interim agreement that was to have been incorpo-

rated into a much more comprehensive agreement to establish an International Trade Organization (ITO). The ITO charter negotiated in 1948 contained detailed rules designed to govern state conduct in a wide variety of areas of international commerce. However, there was fear in Congress that the ITO would involve an unacceptable degree of international interference with U.S. domestic laws and policies and that too many exceptions for other countries had been written into the ITO charter. President Truman, well aware of these views, decided not to submit the ITO charter to the Senate for ratification. Thus, even though the executive branch was winning Congressional approval to engage in broad tariff-cutting negotiations, and Congress largely had delegated to the president its constitutional right to set U.S.tariff levels, the failure of the United States to ratify the ITO charter served as a reminder of the continuing power of the legislative branch over American foreign economic policy.[18] Moreover, because Congress under no circumstances would agree to amend U.S. domestic trade laws (e.g., anti-dumping and countervailing duty laws) in order to make them fully consistent with GATT rules, it was decided to include a provision in the GATT to the effect that GATT members would be required only to apply the agreement "provisionally." This permitted the U.S., as well as other countries, to maintain various domestic laws and practices inconsistent with GATT rules.[19]

Following the initial GATT tariff cuts in 1947, the president no longer had much scope to reduce American tariffs further, because most of his authority had been exhausted during the 1947 negotiations. Congress, however, refused to grant the president substantial new authority to reduce remaining U.S.tariffs, with the result that the GATT negotiating sessions held in the 1950s saw only minor tariff cuts and limited progress toward more liberalized international trade.[20] Increasingly, Congress was becoming concerned about the difficulties being faced by certain U.S. industries as a consequence of the marked lowering of tariffs since the passage of Smoot-Hawley in 1930. Thus, provisions strengthening the ability of injured U.S. industries to apply for import relief in the form of higher tariffs were attached by Congress to the Trade Act in 1948 and 1955. Many legislators also wanted the United States Tariff Commission to determine, *prior to* international negotiations, how extensively tariffs could be lowered without causing harm to U.S. import-competing industries, and provisions reflecting this "peril-point" doctrine were periodically written into the Trade Act when it came up for renewal.[21] In addition, worried that the president had refused to accept Tariff Commission recommendations that higher tariffs be imposed on particular imported products that were harming U.S. industries, Congress inserted a provision in the 1958 Trade Act that gave it the power to force the president to adhere to such recommendations (the "legislative veto").[22]

These developments indicated that, although the president had taken over from Congress most of the responsibility for setting U.S. tariffs and now had the initiative in trade policy, Congress was determined to place limits and constraints on the executive branch; it also wanted to provide ample opportunities for U.S. industries to obtain relief from imports.

With his trade negotiating authority due to expire in 1962, President John F. Kennedy pressed Congress to pass the Trade Expansion Act, which would permit the reduction of remaining U.S. tariffs by up to 50 percent across-the-board over a five-year period through international negotiations.[23] Since the Democrats were in control of both the House and the Senate, Kennedy was assured of a reasonably receptive Congressional reaction. However, Congress insisted that the administration be more responsive to U.S. industries seeking import relief; it also wanted the U.S. to bargain more vigorously with the Europeans, whose recently established European Economic Community (EEC) appeared to many Americans to be discriminating against U.S. exports, especially agricultural products. To win needed Congressional backing for his bill, Kennedy agreed to several key Congressional demands.

First, in response to growing pressure from legislators — mainly Southern Democrats — representing textile manufacturing regions, Kennedy announced a program to assist the beleaguered industry by negotiating "voluntary export restraint" agreements to limit imports into the United States. In 1961–62, a special multilateral textiles arrangement was reached in the GATT which allowed the U.S. and other countries to negotiate restraint agreements with textile exporting states. This effectively neutralized the most important potential source of industry opposition to the Trade Expansion Act.

Second, at the urging of Wilbur Mills, the powerful Democratic chairman of the House Ways and Means Committee, Kennedy agreed to take primary responsibility for U.S. trade negotiations away from the Department of State — seen as insufficiently sensitive to the needs and complaints of U.S. industry by most legislators — and to establish the new position of special trade representative within the President's Office to handle this critical function. This special trade representative would serve as the chief U.S. trade negotiator and be appointed with the advice and consent of the Senate (making him in effect an ambassador).

Third, Kennedy agreed to accept a change in the law giving Congress the power to override a decision by the president not to impose import restraints following a Tariff Commission ruling under the escape clause procedure by a concurrent simple majority vote, instead of the two-thirds majority vote required by the 1958 law.

Finally, the administration agreed to appoint two congressmen from each party (drawn from the House Ways and Means Committee) and two

senators from each party (drawn from the Finance Committee) to the U.S. delegation during the next round of GATT trade negotiations.[24]

Having made these key concessions to Congressional concern, and having provided strong presidential leadership as the bill wound its way through Congress, Kennedy was rewarded with overwhelming majority votes in the House and Senate in support of the 1962 Trade Expansion Act. Both organized labour (the AFL-CIO) and the U.S. Chamber of Commerce backed the bill, as did a large number of Republicans in both houses of Congress. With tariff negotiating authority greater than any president had enjoyed since 1945, the administration was able to press for substantial tariff reductions during the GATT Kennedy Round negotiations held in Geneva over the period 1964–67. The major industrial countries responded favourably to the incentive offered by the ability of U.S. negotiators to reduce U.S. tariffs by up to 50 percent. In the end, tariff cuts of about 40 percent for manufactured products were agreed to, with smaller reductions being accepted for agricultural products. The Kennedy Round was widely regarded as the most successful exercise in multilateral trade liberalization in history.[25] U.S.legislators who participated in the negotiations as part of the American delegation also pronounced them a success, and suggested that Congressional involvement in future trade negotiations was desirable.[26]

Although the Trade Expansion Act did not give the administration authority to negotiate on non-tariff barrier matters at Geneva, the United States chose to participate in discussions aimed at developing new international rules to govern the imposition of anti-dumping duties. And U.S. negotiators also agreed to change the so-called "American Selling Price" system for calculating tariffs on imports of certain kinds of chemicals.[27] However, Congress would not alter U.S. anti-dumping laws to bring them into conformity with the new GATT code, and flatly refused to abandon the American Selling Price regime for the affected chemical products. Thus once again, Congress was reminding the executive, as well as U.S. trading partners, that it would continue to circumscribe the authority of U.S. trade negotiators to bargain away U.S. trade barriers.

Congress and Presidential Leadership in Foreign Economic Policy

Prior to 1934 Congress was deeply involved in determining both the broad thrust and the minute detail of American commercial policy. By periodically setting tariffs, and usually raising them, on thousands of individual products, Congress ensured that it remained at the centre of U.S. trade policy making. The executive branch of the U.S. government often was not even an important player in this process. Most U.S. industries were protectionist-leaning until well into the 20th century, and no powerful constituency really existed that could force Congress to

favour trade liberalization and lower tariffs. The Smoot-Hawley bill illustrated both the enormous influence of Congress over U.S. commercial policy and the impossibility of negotiating effectively with foreign countries on trade issues as long as Congress maintained such detailed control of trade policy. The Reciprocal Trade Agreements Act of 1934 signified a new phase in American foreign economic policy, one characterized by presidential initiative and leadership rather than Congressional dominance. During the next 40 years or so, the United States succeeded in leading the world steadily toward more liberal trade, drastically reduced its tariffs on almost all classes of traded goods, and used the carrot of improved access to the largest and most prosperous market in the world to entice other nations to lower their own tariffs. The ability of the U.S. president to obtain Congressional authority to slash U.S. tariffs in 1945 and again in 1962 was critical to this whole process of multilateral trade liberalization.

Strong presidential leadership and initiative in foreign economic affairs prior to the 1970s was not restricted to the sphere of tariff and trade policy. The U.S. government continued throughout the 1950s and 1960s to support a relatively liberal international regime for investment and capital flows, although efforts were made at times in the 1960s to restrict capital outflows temporarily because of concern about the U.S. balance of payments. Concern was occasionally expressed in Congress about the extent of U.S. capital exports and about the role of U.S.-based multinational corporations in this process.[28] However, Congress made little effort to legislate or intervene in this area. With respect to international monetary matters, it is essential to note that the United States was in a highly privileged position at this time, because the arrangements for the Bretton-Woods international monetary regime and the International Monetary Fund that were established in the 1940s "reflected largely the . . . concerns and influence of the United States."[29] As the dollar quickly became the world's reserve currency after World War II and foreign countries sought vigorously to accumulate surplus U.S. dollars, "the United States was for the most part freed from any balance-of-payments constraint," and it could thus happily "spend as freely as it thought necessary to promote objectives believed to be in its national interest."[30] Because external balance-of-payments considerations were *never* permitted to dictate domestic policies or priorities, it is perhaps not surprising that there was comparatively little Congressional debate on or interference with U.S. international monetary and financial policies during this period. To be sure, hearings were held by the relevant Congressional committees — the House and Senate Banking Committees, and the Senate Foreign Relations Committee on the issue of U.S. contributions to international financial institutions — but overall the executive branch had wide scope to pursue the policies it wanted in the areas of international investment and monetary affairs.

What accounts for the rise of presidential leadership in foreign economic policy from the 1930s to the 1970s? To some extent, presidential leadership in this sphere was part of the broader process whereby the president increasingly assumed the role of chief legislator and policy initiator across the entire spectrum of policy areas.[31] As one student of Congress has written: "As the size and scope of government grew in the 20th century, the capacity of the Congress to perform (legislative) tasks did not keep pace, and the Congress turned outside itself for the leadership it needed — to the president."[32] The role of Congress as policy initiator was steadily eroded in most issue areas after the early years of Franklin Roosevelt's administration. Increasingly, it concentrated on amending and delaying executive-sponsored legislation. This was especially true of U.S. foreign policy, where the executive in any case had always enjoyed more constitutional prerogatives than in domestic affairs.[33]

Turning more specifically to trade policy, the disastrous experience with the Smoot-Hawley bill convinced many legislators that Congress simply had to cede the initiative to the executive branch. Thereafter, Congress was largely content to pass new omnibus trade bills every few years and to grant the president authority to lower U.S. tariffs through international negotiations based on the principle of reciprocity. To be sure, some legislators, particularly Republicans, were opposed to giving the executive branch this power, while others loudly complained that the U.S. was failing to obtain reciprocal treatment from its trading partners. On the whole, however, Congress appeared to be satisfied with an approach that gave it general oversight responsibilities and left the detailed negotiations and policy making to the executive branch.

In seeking to explain this preponderant Congressional attitude, it is important to note the enormous prosperity, competitiveness and relative insularity of the United States in the world economy of the 1950s and 1960s. Even by the late 1960s, exports accounted for only 4 percent of GNP, a far smaller share than for any other major industrial country. The United States accumulated steady trade surpluses until the late 1960s, which is hardly surprising considering its dominance in so many industrial sectors.[34] Although a few industries, notably textiles and parts of the chemical and steel industries, became more strongly protectionist in the late 1950s and 1960s, most major business lobby groups supported trade liberalization, as did the AFL-CIO and several agricultural lobby groups. The AFL-CIO, for example, lent strong support to the 1962 Trade Expansion Act, and its general posture in favour of trade liberalization had considerable influence on the thinking of Democratic party legislators. The Republican party also abandoned or moderated many of its traditional protectionist views.

It is also worth noting that the tariff, which was the major trade issue of

the 1950s and 1960s, was relatively easy to address through international negotiations, since it is a border measure that does not touch directly on domestic laws and policies. Non-tariff barriers (NTBs), on the other hand, are much more difficult to reduce through trade negotiations, partly because there are so many of them and they are so hard to define. Moreover, large numbers of NTBs are related to government laws and programs that are designed to achieve various domestic policy objectives.[35] Significantly, on the one occasion in the 1960s when Congress was asked to change U.S. laws concerning certain NTBs — following the Kennedy Round agreements on a new anti-dumping code and on the American Selling Price system for valuing imports of benzenoid chemicals — it refused to do so.

Also important in explaining presidential dominance of the foreign economic policy agenda before the 1970s are certain institutional features of Congress itself during that period. The Democrats controlled both houses of Congress from 1955 to 1980, and prior to the late 1960s long-serving Southern Democratic senators and congressmen tended to exercise enormous power over their colleagues. In the 1950s, these conservative Southern Democrats had a large share of the party's seats in both houses, and although their share fell in the 1960s, they retained influences because of their numerous committee chairmanships. This in turn was linked to the pervasiveness and authority of the seniority system in Congress at the time. This was especially important in the case of the House of Representatives which, with 435 members serving only two-year terms between elections, is difficult to organize in the absence of strong leadership, particularly in the majority party. Because power in Congress was quite centralized through the seniority system, and because only two Congressional committees (House Ways and Means and Senate Finance) had significant jurisdiction over trade policy, it was normally possible for a determined administration to negotiate and strike deals with Congress on major trade issues.[36] The same was generally true in the case of other foreign economic issues as well; the Senate and House Banking Committees, for example, had largely unfettered jurisdiction over international monetary and financial policy issues.

To be sure, legislators on Capitol Hill have always functioned in a far more decentralized and individualistic environment than their colleagues in Canada and other countries with parliamentary systems of government. But the point is that the Congress of the 1950s and 1960s was characterized by greater centralization of power and stronger Congressional leadership on key foreign policy issues than is the case today. Committee jurisdictions were normally quite clear, and rarely were bills referred to more than one committee. Support for a bill from Congressional leaders usually minimized the risk of serious floor amendments

once the bill had been reported out of committee. Strong committee chairmen, particularly in the House, were able to control the flow of legislative business; in the case of major trade bills they often worked closely with the administration to ensure passage of authorizing legislation.[37] Unlike today, few committee chairmen had to contend with the influence of numerous autonomous sub-committees with their own chairmen, agendas and staffs. And overall, neither individual legislators — particularly on the House side — nor Congressional committees had access to high-quality information independent of the executive branch, or to large numbers of staff policy experts and analysts who could help them analyze and judge administration arguments and proposals.

In short, the Congress of the 1950s and 1960s was easier to deal with, more predictable, and more willing to be led by the president and Congressional leaders in the area of foreign economic policy than was the Congress of the 1970s and 1980s.[38]

Developments in the 1970s

Since the early 1970s, three trends have worked to change significantly the approach taken by Congress to international economic policy issues and to increase its influence and importance in the U.S. policy process. First, the competitive position of the U.S. economy has been eroded, and the relative isolation of the U.S. from world economic developments has been ended, as a result of the growth of international economic interdependence and the emergence of many new competitors in a host of industrial sectors. This, in turn, has stimulated strong protectionist pressures in the United States, and spurred a search for new national policies to deal with an increasingly interdependent and competitive world economy. Second, the dramatic lowering of tariffs through international negotiations since the 1960s has changed the trade policy agenda. Tariffs were less and less the focus of trade policy in the 1970s, and promise to be of declining significance in the 1980s and beyond. They have been replaced by non-tariff measures and domestic policies that affect trade flows as the key issues for international trade policy. These kinds of trade barriers are much more difficult than tariffs to address fruitfully in the GATT or in bilateral negotiations, in large part because they impinge directly on many domestic policy areas. Finally, and particularly relevant to this paper, Congress itself has been transformed into a quite different legislative institution in the 1970s, one that is much more involved in making and influencing U.S. international economic policy generally and trade policy especially. All these developments have shaped and will continue to affect the role and importance of Congress in respect of trade and other foreign economic policy issues. Each is considered in some detail below.

Competitive Pressures and Increased Protectionism

The growth of international economic interdependence over the past three decades has elicited much comment and analysis from scholars and statesmen alike. This is not the place to enter into a serious discussion of this important subject,[39] but suffice it to say that one of the casualties of rising international interdependence has been the insulation of the United States from worldwide economic developments and pressures. The United States has lost its previous position of unchallenged dominance in the international economy and has become considerably more dependent on that external world economy. From 1950 to 1980, the U.S. share of world product fell from 40 percent to about 20 percent, and its share of world trade declined from 20 percent to a little more than 10 percent. As other countries continue to grow and mature economically, the U.S. share of world trade and production is certain to fall further.[40]

At the same time as its dominance within the global economy has been eroding, the United States has become more dependent on that economy for its own prosperity and economic growth. Exports of goods and services as a share of U.S. GNP rose from slightly more than 4 percent in 1970 to 10 percent by 1981; one-sixth of U.S. manufacturing jobs now depend on exports, and more than 35 percent of U.S. agricultural production is now sold abroad.[41] Moreover, many of the more competitive and dynamic sectors of the U.S. economy — including a host of service industries such as international banking and insurance — are increasingly reliant on foreign trade and commerce. Then, too, U.S. dependence on imports has also risen sharply since the 1960s. The most dramatic example, of course, is petroleum, the price of which escalated sharply on two occasions in the 1970s, thus putting strong pressure on the balance of payments in the United States and other importing countries. In addition, rising import penetration levels are also evident in a large number of other industrial sectors, such as autos, steel, rubber, textiles, clothing, electronics and consumer durables.

Many commentators have written about the decline of U.S. industrial power and competitiveness in recent years. It was inevitable that the nations of Western Europe would recover from World War II, and reduce America's competitive lead in manufacturing industries and its overall technological dominance in the 1960s and 1970s. Less predictable was the emergence of Japan, and more recently of a number of newly-industrializing developing countries (NICs), as major forces in world manufactures trade.[42] The growth of protectionist pressures in the United States since the late 1960s has been closely associated with the increasing importance of Japan and the NICs as producers and exporters of all manner of manufactured goods. The United States has moved to negotiate scores of so-called "voluntary export restraint" agreements

(VERs) with Japan, South Korea, Taiwan and a host of other NICs in the past 10 or 15 years. In most instances, these restraint agreements are basically imposed on the exporting countries or companies involved, with the threat that potentially much harsher action will be taken through Congress unless exports to the U.S. are moderated and controlled.[43] U.S. laws governing the use of anti-dumping measures, countervailing duties, and other instruments designed to deal with "unfair" trade practices have also been toughened in recent years in response to Congressional pressures and strengthening protectionist sentiment throughout the economy. More recently, the high value of the U.S. dollar relative to other major currencies has exacerbated the problems faced by many U.S. industries and worsened the competitive position of U.S. manufacturers both in the domestic market and abroad.

This is not to suggest that the U.S. has turned decisively protectionist. In many ways, it remains an open market, and large numbers of U.S. industries have a stake in the preservation of liberal trade and investment regimes in the international economy, as do many Congressional districts and states. However, the rising pressures of large trade deficits, growing import penetration in manufacturing sectors, and the declining international competitiveness of various U.S. industries have led some groups to advocate the development of an industrial strategy that would aim both to cushion weaker U.S. industries from foreign competition and to improve the competitive position of U.S. manufacturing generally.[44] This idea has considerable support on Capitol Hill, especially in the Democratic party,[45] and may come to exercise more influence in national politics and Congressional thinking about the future of U.S. commercial policy. If this occurs, foreign governments will then have cause to worry that a more interventionist U.S. industrial policy may threaten access to the U.S. market.

A New Agenda

Another important change in the environment within which Congress seeks to influence U.S. foreign economic policy has been the emergence of a new agenda of trade issues. The substantial lowering of tariffs on most industrial goods after the GATT Kennedy Round negotiations meant that the major trading nations would have to tackle non-tariff impediments to trade in the 1970s and 1980s if the momentum toward trade liberalization were to continue. The Tokyo Round tariff reductions, which when fully implemented will bring tariffs on industrial goods down to 4 to 7 percent in the U.S., the EEC, and Japan, will accentuate the importance of other trade barriers in the 1980s and 1990s. Non-tariff barriers (NTBs) include a wide variety of policies and instruments that affect trade flows and market access either directly or indirectly.[46] Examples of the former are export subsidies and government procurement practices that give preference to domestic suppliers; while

NTBs that indirectly influence trade include health and safety standards, regional development subsidies, and many other government policies whose purpose is to achieve domestic objectives. As the 1970s progressed, these kinds of issues increasingly dominated the international trade agenda. And because NTBs relate directly or indirectly to so many domestic policy areas, trade issues became more difficult to categorize and deal with as such within both the executive branch and in Congress.

In addition to NTBs, two other issues have become prominent on the international trade policy agenda since the 1960s: services trade and investment. Services now account for the bulk of total economic activity in most industrialized countries, and they are an increasingly important component of world trade as well. Yet despite the undeniable shift to services in the developed capitalist economies, there are few international arrangements or agreements governing trade in services. The GATT, for example, regulates the use of national barriers with respect to goods, not services. The United States enjoys a highly competitive position in many key service industries, and partly for this reason it has been the strongest supporter of greater international discipline over and liberalization of trade in services.[47] Congress has become active on this issue as well. Numerous pieces of proposed legislation that seek to pry open foreign markets to U.S. service industries have been introduced in the House and Senate in recent years. Services trade is certain to be one of the central international trade issues during the next decade.

A final issue which became part of the international trade agenda in the late 1970s is investment, and particularly the use of foreign investment in the U.S. and in other countries as a means to dampen protectionist pressures. The clearest evidence to date of the importance of this trend has been the effort by Japan to protect its access to the U.S. automobile market — in which Japan accounts for about one-quarter of all sales — by investing in U.S. manufacturing and auto assembly plants. So far Japan has invested more than $4 billion in such facilities. Canada, too, has tried to convince Japan to undertake large investments in the auto and related industries in this country, but with much less success. The U.S. Congress has been very active in seeking to pressure foreign countries to invest in U.S. production facilities if they wish to maintain access to the U.S. market. It is clear that this pressure has worked at least to some extent in the case of Japan and automobiles, and it remains to be seen whether this will become a more common phenomenon in the United States.

The increasing importance of NTBs and trade in services has expanded and complicated both the international trade agenda and the U.S. commercial policy-making process. Because trade issues impact more on domestic policy, they have become more like domestic issues. This has expanded the universe of domestic political and economic actors with an interest in trade issues, and reduced the ability of Con-

gressional leaders and one or two committees to manage and control trade legislation on Capitol Hill. Examples are not difficult to find of how the expansion of the trade policy agenda has contributed to the diffusion of interest in and influence over trade questions in Congress. In the 98th Congress, for example, the following committees of the House of Representatives were seeking to draft, or were considering legislation, to deal with trade issues: the Armed Services Committee addressed export controls; the Appropriations Committee attached Buy America provisions to an emergency jobs bill; the Banking Committee included Buy America provisions in its bill designed to promote industrial revitalization, and also considered bills pertaining to export controls; the House Energy and Commerce Committee drafted one bill requiring automobile exporters to meet certain domestic content requirements and another dealing with U.S. services exports; the Agricultural Committee considered various bills to increase U.S. agricultural exports; the Committee on Government Operations studied bills to reorganize the trade policy-making machinery of the executive branch; and several other committees also reported out or seriously considered various bills with Buy America provisions attached to them.

This situation may be contrasted to that which prevailed in the 1950s and 1960s when tariffs were the number one trade issue: at that time, only two Congressional committees, House Ways and Means and Senate Finance, were normally active on trade matters, and few legislators were knowledgeable about trade-related issues. The significance of this change in Congress's approach to trade policy is discussed further below.

Institutional Changes

The third important development in the 1970s occurred in the way Congress organized itself and conducted its legislative business. Essentially, what happened during that decade was that Congress became a much more democratic institution in terms of its decision-making procedures. The ability of the Congressional leadership to control the flow of legislative business declined as the role and influence of individual legislators, including junior members, increased substantially. Legislators, particularly in the House, were less willing to be led by senior party leaders and became more confident of their ability to make independent judgments on many policy issues. Four aspects of this significant change in the operation of Congress merit discussion here because of their importance for the U.S. foreign policy-making process: the decline of the seniority system; the proliferation of subcommittees and the tendency toward multiple-committee jurisdiction; the increasing staff and analytical resources available to legislators; and certain procedural reforms in both the House and the Senate that opened up the legislative system to more scrutiny.

Much has been written about the decline of the seniority system in Congress.[48] In the 1950s and 1960s, Congress was basically run by a small number of members with many years of service, who chaired the key committees and largely determined the flow of legislative business. These committee chairmen were usually able to decide unilaterally how bills would be dealt with and reported out of their committees. Most of these senior congressmen and senators were long-serving Southern Democrats, who chaired committees and subcommittees by virtue of their party's longstanding dominance of the House and Senate. In the early 1970s, many new and more liberal congressmen and senators were elected. A number of decisions were made by Democratic legislators that weakened the power of senior committee chairmen, undermined the seniority system, and markedly increased the scope for individual legislators to participate in decision making in a more significant way. The most important changes were in the House, where the seniority system and the power of senior members had been more visible than in the Senate.[49]

In 1971, the House Democratic caucus decided that seniority would no longer dictate the selection of committee and subcommittee chairmen, and that the caucus could vote on any proposed candidate put forward by the House Ways and Means Committee — which selected chairmen — if more than ten Democratic members so wished. At about the same time, the Republicans also decided that seniority would be abandoned with respect to the selection of ranking minority members of House committees and subcommittees.

Then, further efforts were made to weaken the power of House committee chairmen particularly, and senior members generally, when the Democratic caucus ruled that no committee chairman could chair more than one subcommittee of his own committee, and that no member could chair more than a single subcommittee overall. In 1973, the Democrats adopted a "subcommittee bill of rights" that effectively freed subcommittees from the control of committee chairmen. Subcommittee chairmen, who were no longer chosen by committee chairmen, won the right to call meetings of their subcommittees, to choose staff, and to have bills falling within the jurisdiction of their subcommittees automatically referred to them (previously, committee chairmen made this decision). It was also decided that all members of the majority party, including freshmen, would be guaranteed at least one major committee assignment. The impact of these changes was dramatically shown in 1975 when three long-serving Southern Democratic committee chairmen were ousted by the "Watergate Congress" of 1974. In 1975, following the retirement of the powerful chairman of the Ways and Means Committee, Wilbur Mills, that key committee was considerably expanded and subcommittees were created for the first time.

In 1976, the House Democrats further weakened the influence of

committee chairmen by ruling that no chairman could henceforth chair a subcommittee of another standing committee. Finally, the House Democrats also reacted against the closed rule in the late 1970s by restricting the ability of committees to report bills to the full House under the stricture of the closed rule (which prohibits floor amendments).

In the Senate, the changes were somewhat less dramatic since senators had always enjoyed more freedom and the Senate power structure was less rigid. Nonetheless, significant reforms did occur in the 1970s.[50] Selection of committee chairmen and committee assignments was opened to caucus review in the early 1970s; previously, the majority and minority leaders had selected chairmen and ranking minority members of committees, and had made all assignments on the basis of seniority. The Democratic Senate caucus also decided that a majority of committee members could call a committee meeting even if the chairman were opposed. In 1972 the Senate agreed that seniority need no longer prevail in selecting senators to serve on conference committees — which are formed to allow the House and Senate to hammer out agreement on proposed legislation that is likely to exist in two different versions in the two chambers.

The Senate also decided in the early 1970s that no committee chairman could chair more than one subcommittee of his or her own committee. It was also agreed that a senator would be permitted to serve on only one of the four most prestigious and powerful committees — Foreign Relations, Finance, Armed Services, and Appropriations. As with the House Ways and Means Committee, the Senate Finance Committee was forced to establish sub-committees. And, in 1979, junior senators pushed through a rule that prohibited committee chairmen from assuming more than two subcommittee chairmanships overall (versus three for other senators). This last step quickly created about a dozen new subcommittee chairmanships for junior senators.

Closely related to the weakening of the seniority system in Congress has been the proliferation of subcommittees and the development of what has been called "subcommittee government."[51] If committees were the vehicles through which Congress dealt with and produced legislation in the 1950s and 1960s, by the late 1970s subcommittees were of comparable importance. Most hearings in Congress today are held by subcommittees. Normally, legislation now is dealt with and marked up in subcommittees rather than in committees, as was formerly the case. "Subcommittees are the leading initiators and drafters of legislative measures and reports."[52] Subcommittee chairmen are independent power centres on Capitol Hill, with the right to call meetings and hire their own professional staff.

There are now about 150 subcommittees in the House and more than 100 in the Senate. When subcommittees are added to the standing, special and joint committees that exist in each body (20–25), it turns out

that there are almost 1,000 available committee and subcommittee seats or positions in the Senate and about 2,500 in the House.[53] The proliferation of subcommittees and their increasing influence have greatly expanded the opportunities available for individual legislators, including the most junior, to participate in a significant way in the legislative process on Capitol Hill. At the start of the 98th Congress, all but one of the 56 Republican senators chaired a Senate committee or subcommittee, and all but one of the 46 Democratic senators was a ranking minority member. In the case of the House, at the beginning of the 98th Congress, 134 of the 266 Democratic congressmen chaired at least one committee or subcommittee, while 107 of the 167 Republicans were ranking minority members.[54] This not only gives legislators more opportunities to exercise influence but also contributes to jockeying and competition in Congress for jurisdiction among subcommittees and committees. Subcommittee deliberations are noteworthy for "the multiplicity of interests that can be brought into play."[55]

The growth in both the influence and the number of subcommittees has further fragmented and disorganized Congress's already unwieldy decision-making processes. One result is that Congress more than ever gives the impression of "buzzing confusion";[56] another is that it has become less predictable and controllable by Congressional leaders. In most policy areas, more and more legislators are now able to have some impact on what Congress decides, because increasing numbers of committees and subcommittees claim to have some jurisdiction over the issues. This has unsettling implications for Canada and foreign governments generally as they watch the U.S. Congress address international economic policy questions; the increasing numbers of legislators, committees and subcommittees active on a particular issue make it less certain how or whether Congress will eventually dispose of issues under consideration.

Another important change in Congress in the 1970s was the marked improvement in the quality of professional staff and analytical support services available to legislators.[57] From 1970 to 1979, the number of professional staff members serving Senate standing committees grew from 635 to more than 1,000, even though there was only a slight increase in the number of such committees. House standing committee staff grew from 700 to about 2,000 over the same period.[58] Each individual congressman and senator was granted funds to hire more personal staff in the 1970s as well. Total personal staff in the House increased from 5,280 in 1972 to well over 7,000 by 1980; in the case of the Senate, the comparable figures were 2,400 and 3,600. However, few of these staff members are legislative aides; most do constituency work. One recent estimate suggests that the average number of personal staff with legislative functions for each member of the House rose from 1.3 in 1972 to 2.2 in 1979, and for each senator from 3.9 to 5.5 over the same period.[59]

Perhaps of equal significance to the staff increase has been the growth in the size and capabilities of the legislative support agencies. Two new support agencies were created in the 1970s — the Office of Technology Assessment and the Congressional Budget Office. The two older agencies also saw their budgets and staff resources expand considerably during the decade: the Congressional Research Service's budget grew by about 600 percent and its staff by more than 150 percent, while the General Accounting Office had to make do with a tripling of its budget and a staff increase of only 15 percent.

Legislators now have access to enormous volumes of information and high-quality policy analyses independent of the executive branch, thanks to the growth and improvement in Congressional support agencies, in professional committee staff, and in personal staff. The ability of committee chairmen and the executive branch to control the availability of information has been undermined. Individual congressmen and senators now have access to information and analytical resources through their own personal aides and the support agencies and, in the case of minority members of committees and subcommittees, through the professional minority staff who now work on all committees as well. "The effect has been to give congressmen independent access to the sort of knowledge they used to get from the departments, and a capacity to make their own estimates, projections, and assumptions about the impact of policy."[60] Moreover, many personal Congressional staff are "entrepreneurial," anxious to promote the interests of their legislative superiors rather than the party caucus or the institution as a whole. According to one student of the subject, "the activities of entrepreneurial staff frequently conflict with the corporate goals established by Congressional leaders."[61]

The availability of ample staff resources and information in Congress has clearly contributed to the tendency toward greater individualism and independence among legislators. Recent changes in Congressional procedures have also served to decentralize power and to permit legislators to operate increasingly as independent "policy entrepreneurs," highly sensitive to the views of their home and interest group constituents and supporters. For example, multiple referrals of bills became more common in the 1970s. Such referrals increase the number of legislators active in the consideration of a given bill or issue. They make it considerably more difficult to pass legislation through the two houses of Congress. The authority once enjoyed by certain committees in key policy areas has been eroded through the practice of multiple referrals. In the case of trade policy, the expansion of the agenda of trade issues has increased the number of committees with an interest and stake in trade matters. (This is discussed at greater length below.) This has weakened the authority once enjoyed by the House Ways and Means and Senate

Finance Committees by virtue of their jurisdiction over tariffs and revenue questions.

An additional procedural change has seen Congress conduct much more of its business in the open, with many committee and House-Senate Conference meetings open to the public (and thus to the media and interest group representatives). Such open deliberations impose constraints on legislators and further erode the power of Congressional leaders. Aware of public scrutiny, an individual congressman or senator will tend to be more sensitive to the views of his constituents and of interest groups which have the ability to assist or harm his re-election chances than he will to the pleadings of Congressional and party leaders. Finally, the use of recorded votes on amendments to bills on the floor of the House has added further to the pressure members feel to vote as their constituents wish on legislative proposals, and also has made it more likely that bills and decisions reported out of committees to the House as a whole will be overturned or amended on the floor.

These various changes and reforms in the way Congress functions, combined with other developments such as the emergence of political action committees and single-issue interest groups and the rising cost of Congressional campaigns, have made legislators in Congress more individualistic, independent and parochial in their concerns, and less willing to support the positions advanced by party and Congressional leaders. This is the assessment of virtually all students of the modern Congress.[62] As one scholar has written, "the mix in Congress has been altered to include more new-style members with very individualistic perspectives on their careers."[63] The political parties appear to be less and less important to a legislator's re-election prospects and campaign financing needs. This encourages members of Congress to be ever more attentive to local concerns. In addition, many legislators are becoming policy entrepreneurs, anxious to promote certain policy ideas and able to use the new procedures and norms in Congress to do so. In all spheres of policy, domestic and foreign, more and more legislators are becoming active and seeking to influence the course of Congressional deliberations. The development of "subcommittee government" has greatly increased the opportunities available to these legislators to affect policy.

The implications of these various changes for the making of U.S. foreign economic policy are rather ominous from the perspective of other countries, particularly when added to the other two developments in the 1970s that were discussed earlier — increased import penetration and growing protectionism in the United States, and the emergence of a new and more complex trade policy agenda. Today, the fact is that many Congressional committees and legislators have a piece of the action on trade and other international economic policy issues. According to one recent study, for example, 18 Congressional committees and 21 subcom-

mittees have some jurisdiction over aspects of U.S. trade policy.[64] Often, two or more committees in the same chamber will have jurisdiction over the same issue. The following overview of key committee jurisdictions with respect to trade and other foreign economic policy issues illustrates how authority is fragmented in the contemporary Congress:[65]

Senate Committee	House Committee	Issues
Finance	Ways and Means	Tariffs, customs, import quotas, reciprocal trade agreements, and tax matters related to trade
Banking, Finance and Urban Affairs	Banking, Finance and Urban Affairs	Trade promotion and export controls (Senate only); international financial and monetary policy; Export-Import Bank; international financial institutions (House only)
Commerce, Science and Transportation	Energy and Commerce	Trade promotion and trade in telecommunications (Senate only); interstate and foreign commerce, travel, and tourism (House only); foreign investment in the United States; international energy issues (House only)
Foreign Relations	Foreign Affairs	International financial institutions (Senate only); general international economic policy; foreign aid; export controls (House only)
Agriculture, Nutrition and Forestry	Agriculture	Agricultural trade; food aid
Governmental Affairs	Government Operations	Trade reorganization

Surprisingly, the growing assertiveness of Congress in the area of international economic policy in the 1970s did not prevent the administration from passing an important piece of authorizing legislation in 1974 or from negotiating and implementing some wide-ranging trade agreements at the close of the GATT Tokyo Round in 1979. To be sure, growing

protectionism was evident in Congress in the 1970s. Bills introduced in 1970 and 1971, for example, contained sweeping trade restrictions that would have sharply reduced foreign access to the U.S. market for a wide range of manufactured goods and agricultural products. Both the Mills bill and the Burke-Hartke trade and investment bill were defeated eventually, but not before the executive branch and U.S. trading partners had cause for grave concern about the future of U.S. trade policy.[66] In retrospect, perhaps the most significant development in domestic U.S. trade politics in the early 1970s was the departure of organized labour from the broad coalition of groups supportive of further trade liberalization.

Despite these pressures, the administration was able to secure passage of the Trade Reform Act of 1974, which granted the president authority to reduce tariffs by up to 60 percent and to negotiate non-tariff measure agreements with other GATT members. However, in providing the executive branch with negotiating authority, Congress was careful to impose constraints on U.S. negotiators and to maintain its right ultimately to reject agreements reached by the United States.[67] In addition, the U.S. administration successfully negotiated voluntary export restraint agreements for steel and textiles while Congress was considering the 1974 bill, thus muting the demands of these key industries that the legislation be killed.

Although it eventually passed the Act by an overwhelming margin, Congress extracted a number of key concessions from the administration. First, it refused to grant the executive unlimited authority to cut tariffs. Second, it wrote generous adjustment assistance provisions into the bill. Third, it insisted that the Treasury and the Department of Commerce investigate anti-dumping and countervailing duty cases pressed by U.S. industries seeking relief more quickly, and that the scope for executive discretion in dealing with such cases be reduced. Fourth, it insisted that the government act more quickly and favourably on International Trade Commission rulings that U.S. industries were being injured by imports and thus needed protection (the "escape clause" procedure).

The administration accepted these and other Congressional demands, but in exchange got Congress to agree that, when the U.S. negotiators returned with the Tokyo Round results, Congress would have only 60 days to accept or reject them outright; no amendments would be possible. When the Tokyo Round package was presented to Congress in June 1979, it was quickly approved within the stipulated time limit, thus signalling that while Congress might be highly sensitive to those interests seeking import protection, it was still willing to lend support to trade liberalization if its chief concerns and views had been taken into consideration. Legislators were, of course, sensitive to the concerns of industries in their states and districts that wanted import protection. However,

their preferred way of dealing with this constituency pressure was to devise more generous general laws and policies governing import relief. They did not want to prevent the president from negotiating reduced trade barriers with U.S. trading partners. Rather, most members of Congress supported *both* further multilateral trade liberalization *and* the reform of domestic import relief practices. The 1974 Trade Act and the 1979 legislation implementing the Tokyo Round accords evidently satisfied Congress on both scores. The questions now, however, are whether Congress is likely to grant the president broad authority to negotiate lower trade barriers in the future, and whether attitudes toward trade liberalization more generally are changing in a fundamental way in the U.S. Congress.

The 1980s and Beyond

Recent years have witnessed burgeoning interest in trade matters in Congress as the U.S. trade deficit has soared to unprecedented heights and the international competitive position of more U.S. industries has come under intensifying pressure. This has prompted a flood of protectionist-leaning legislation on Capitol Hill. Although little of this legislation has in fact been passed and implemented into law, it does provide an indication of the evolving views of U.S. legislators and may offer a clue as to Congress's future actions with respect to trade policy issues. The many bills pertaining to trade that have been discussed in Congress since 1980 cannot be reviewed here. Instead, a selective treatment of some of the major issues and questions raised by recent Congressional deliberations on trade matters and a rough forecast of future Congressional priorities on trade are offered below. Then, in the next part of the study, an effort is made to analyze the subject of Canadian lobbying of the U.S. Congress.

A strong belief exists on Capitol Hill that the United States has granted its trading partners better access to the U.S. market than they in turn have been willing to accord to American industries in their own domestic markets. This concern over "reciprocity" has been perhaps the single most important trade policy theme in Congress over the past four years. Reciprocity has long been a cornerstone both of U.S. trade policy and of the General Agreement on Tariffs and Trade, but the way in which the issue has been treated by many U.S. legislators suggests that a new and rather ominous idea of what it involves has been gaining influence in the United States. Traditionally, "reciprocity has meant a broad balance between the reduction in trade barriers offered by the United States and the liberalization secured from other major trading partners in negotiations. . . . "[68] However, many on Capitol Hill appear to have embraced a new conception of reciprocity: "The new reciprocity

movement focusses instead on reciprocity of the resulting (negotiating) outcome, and tends to base judgments on sectoral grounds rather than recognize an overall balance. It also tends to seek bilateral reciprocity of trade outcomes, focussing on countries that have a bilateral (trade) surplus with the United States while not taking into account U.S. bilateral trade surpluses with other areas."[69]

Several premises underpin the arguments advanced by U.S. legislators and others who believe that the United States is not accorded fair and reciprocal treatment by its trading partners.[70] First is the view that U.S. industries do not enjoy the same kind of relatively open market access available to many foreign industries in the American market. Congressional exponents of reciprocity legislation invariably point to Japan in this regard, and note the existence of a large and persistent bilateral trade imbalance with that country. Fortunately for Canada, the recent trade surpluses — in the range of $15 billion annually — recorded by Canada in its trade with the United States have not elicited much critical Congressional scrutiny. Canada is not a primary target of the reciprocity legislation recently introduced on Capitol Hill, although certain bills that would aim to ensure reciprocal national treatment with respect to foreign investment might affect Canadian policy and practice if they were passed.

A second and related premise of the reciprocity movement in Congress is that the United States can pry open foreign markets by threatening to restrict access to its own market through the use of retaliatory policy instruments enshrined in most reciprocity bills introduced in Congress. A third premise reflected in the more militant reciprocity legislation is that fair trade requires that a rough sectoral and bilateral balance exist in U.S. trade with foreign nations. That this proposition amounts to a virtual repudiation of the very idea of mutually profitable international commerce and comparative advantage appears not to have deterred its more vigorous proponents in the Democratic Party.

In the wake of strong statements by Reagan administration officials that foreign markets were less open than the U.S. market, legislators have introduced more than 60 bills dealing with the subject of reciprocity since 1982. Generally speaking, the reciprocity bills fall into one of two categories. On the one hand, there are proposals which invoke the theme of reciprocity, aim to improve U.S. access to foreign markets for exports of services and foreign investment, and would grant the president new authority to enter into international negotiations to achieve these objectives. Although these bills would strengthen the president's ability to retaliate against trading partners deemed to fall short of a general standard reciprocity, they would not require either a bilateral or sectoral balance in trade flows and are not particularly protectionist. On the other hand, a considerable number of bills that address the issue of reciprocity

are more narrowly protectionist and seek to limit imports into the U.S. of various kinds of goods, especially those produced efficiently and in great volume by Japan and many newly industrializing countries.

A bill that reflects an overall concern for reciprocity is S. 144, the International Trade and Investment Act of 1983, introduced by Senator John C. Danforth and passed by the Senate. This bill sought to expand U.S. export opportunities in services and high technology goods and to increase the president's authority to retaliate against countries that fail to provide a "fair and equitable market opportunity" to U.S. commerce. Although S. 144 called for a more active U.S. trade strategy and for stricter enforcement of U.S. rights under the GATT and other agreements, it did not represent a significant departure from past U.S. trade policy, and was not inconsistent with existing U.S. and international trade laws.[71] A potentially more protectionist reciprocity bill considered by the 98th Congress was S. 794, the Service Industries Commerce Development Act of 1983. It proposed to grant the president authority to limit the ability of foreign service industries to operate in the United States if their own countries imposed restrictions on U.S. service industries. This bill, which was opposed by the administration, could have had a major impact on Canada because of Canadian policies that limit the size and operations of foreign banking, insurance and other financial service industries.

Another sector-specific reciprocity bill considered by Congress in 1983–84 was S. 1253 (H.R.1052), the High Technology Trade Act of 1983. Introduced by Senator Gary Hart, this bill would require the president to determine whether foreign countries provide national treatment — i.e., treatment identical to that provided to domestic industries — to U.S. exports of high technology goods and U.S. foreign investments in high technology industries. If such treatment were not provided, the bill gave the president authority to restrict U.S. purchases of high technology products from offending countries. Had this bill passed and become law, it would have affected Canada and many other countries that accord preferential treatment to their own domestic high technology industries.

The only reciprocity bills likely to pass through Congress and win presidential support in the near future are those that contain general statements favouring reciprocity as well as new authority for the president to negotiate improved foreign market access for the United States in respect of services, high technology products, and perhaps investment. There does not appear to be sufficient support on Capitol Hill for more sector-specific approaches to the problem to permit the passage of tough new reciprocity legislation with a high potential for protectionist application.[72] Nonetheless, the increasing Congressional interest in the subject of reciprocity does illustrate the mounting frustration of many

U.S. legislators with the perceived unfair and non-reciprocal policies of U.S. trading partners.

It is clear that recent Congressional actions on trade questions reflect a widespread view on Capitol Hill that the United States must be more aggressive in competing for business abroad. There is a belief among many legislators that foreign governments have been vigorously assisting their export industries, while the United States has shied away from such a policy. A number of bills have been introduced since 1981 that would increase the financial resources of the Export-Import Bank and allow it to offer more subsidized export financing. Bills calling for more subsidized sales of U.S. agricultural produce abroad are also popular. An area where Congress definitely wants the administration to be more active is in promoting U.S. exports of services. Congress understands that the United States enjoys a strong competitive position in many service sectors and that current international agreements do not really address barriers to services trade. A host of bills designed to give the president stronger authority to negotiate better foreign market access for U.S. service industries were under consideration by the 98th Congress, and the administration will probably be active on this issue in the future.[73] In the current bilateral talks between Canada and the United States, for example, the United States has identified liberalized services trade as one of its chief goals.

Although many bills have recently been introduced in Congress that would restrict imports of particular products into the United States (or, as in the case of the automobile local content bills passed by the House in 1982 and 1983, impose domestic content requirements on exporters to the United States), as of 1984 there was little evidence to indicate an *unusual* increase in the number of such unabashedly protectionist bills. Legislators typically introduce and give some support to scores of protectionist bills each year. Most of these have no chance of being passed by the two houses of Congress and implemented into law. They are often introduced by legislators anxious to show their concern to protectionist-minded constituents back home. Several sources interviewed in connection with this paper noted that support by many House Democrats for the automobile domestic content bill was offered in the full knowledge that the legislation had no chance of being approved by the Senate. Had they believed that the content bill would actually become law, a significant number of House Democrats might have voted against it or otherwise worked to bottle the bill up in committees.

The press in the United States and in other countries often tends to exaggerate the threat posed by protectionist legislation under consideration by Congress. The fact of the matter is that only a small fraction of *all* bills introduced in Congress are ever passed. In 1983, for example, 4,580 bills were introduced in the House of Representatives; by April 1983,

only 88, or less than 2 percent, had become law.[74] Legislation is simply not easily passed in the U.S. Congress. Typically, the two chambers will pass quite different versions of bills ostensibly designed to address the same concern. These differences must then be worked out in conference. Even then, however, the president can veto a measure to which he is strongly opposed, although there is normally a political cost associated with doing so. More important still is the fact that the press of time works to prevent the passage of much legislation in Congress. Thousands of bills are bottled up in committees and subcommittees by the end of each two-year session of Congress.

By introducing bills to restrict imports of certain products into the United States, legislators can not only appeal to domestic constituents but also send a signal to the administration and to U.S. trading partners that action is required to address the problems facing industries under strong pressure from imports. American industries being harmed by imports have available a wide array of legal mechanisms through which they can seek relief,[75] but they may well prefer that action be taken by Congress to restrict imports. Congress, however, often hopes the executive branch will deal with the problem by negotiating some kind of voluntary arrangement with the countries from which the imports originate. Congressmen and senators are generally quite anxious to deflect the pressures brought to bear on them by particular groups seeking protection. This explains why they have willingly given an independent agency, the International Trade Commission, the power to determine whether a complaining U.S. industry has in fact been injured by imports.

There remains, of course, the possibility that strong pressure for legislated import relief from very powerful constituencies which enjoy considerable influence on Capitol Hill will result in the passage of harsh protectionist legislation. In the case of agriculture, for example, concerted pressure for import relief by the dairy and other industries has always been a potent factor in the deliberations of Congress on trade matters, in part because agricultural interests have historically been overrepresented on the Senate Finance Committee. The recent campaign by the U.S. steel industry and its unions to restrict foreign steel producers to 15 percent of the U.S. market may be an example of where a powerful coalition is able to convince Congress to pass blatantly protectionist legislation. Fortunately, however, many U.S. industries have a stake in a relatively liberal trade regime, and as more U.S. industries and a larger share of total U.S. economic activity come to depend on trade, societal coalitions supportive of liberal trade policies should strengthen. This in turn will militate against the ascendancy of obviously protectionist forces in Congress.

In seeking to forecast how Congress will deal with trade and other

foreign economic policy issues in the years ahead, it is necessary to bear in mind that broad economic trends and developments will be central to the determination of future U.S. commercial policy. For example, if interest rates were to decline significantly during the next two years, and the U.S. dollar were then to depreciate vis-à-vis other major currencies, the huge American trade deficit would fall and U.S. industries would find both foreign and domestic markets more receptive. This would certainly help to mute the protectionist pressures now being felt on Capitol Hill. On the other hand, if the U.S. dollar remains at its present high value relative to other currencies, and growing number of U.S. exporters find it increasingly difficult to sell their products, it is inevitable that more protectionist bills will be introduced in Congress and that a few of them will pass. Similarly, strong economic growth would help to weaken the arguments of those seeking import protection, whereas a stagnating economy in which unemployment is rising would strengthen demands for import relief. Given the great difficulty in forecasting economic events over even a year or two — to say nothing of a decade or more — it is necessary to admit the hazards involved in trying to predict how Congress will address trade policy issues in the future. Nonetheless, certain predictions can be offered with a fair measure of confidence.

First, the resurgence of Congressional interest and involvement in commercial policy that was evident in the 1970s and early 1980s will continue. There are several reasons for this. One is the nature of the new international trade agenda, which contains numerous issues which have a significant domestic impact (e.g., government procurement, subsidies to business and communities and harmonization of technical and safety standards for products). Another is the fact that trade almost certainly will account for a growing share of U.S. economic activity in the future, continuing a trend that has been discernible for more than 20 years. This alone guarantees that Congress will be disposed to pay more attention to such issues as the access enjoyed by U.S. industries abroad, the external competitiveness of U.S. industries, and the impact on import-competing U.S. industries of rising import penetration.

A second prediction concerns how Congress will grapple with commercial policy issues. As noted previously, more legislators and committees have become involved with trade matters in recent years. This trend will continue, meaning that trade legislation — or at least legislation that has an impact on trade — will often emerge from Congressional sources that have a primarily domestic orientation. The example of the automobile domestic content bills emerging from the House Energy and Commerce Committee will probably be repeated with increasing frequency in the future. Simply because it originates with committees concerned mainly with domestic issues, legislation is more likely to have

a protectionist cast than legislation coming from committees that have a more international orientation because of their areas of jurisdiction and past experience dealing with trade questions.

A final, general prediction concerns the nature of the relationship between Congress and the executive on trade and other international economic policy questions. The inclination of Congress to sacrifice U.S. commercial interests in exchange for furthering broader foreign policy goals declined markedly in the 1970s, and it may decline still further. In an increasingly competitive international economy, one characterized by the emergence of many new competitors for markets, the United States will be less willing (or able) to subordinate its commercial and economic policy goals to foreign and security policy objectives. Congress is the place where this shift in orientation will be manifested most clearly. Congressional pressure on the executive to be more aggressive in promoting U.S. commercial interests and in confronting the policies of U.S. trading partners will escalate, and the executive will no doubt feel compelled to be responsive to such pressure on occasion.

Related to this is the question of executive discretion. Congress has become less willing to grant the executive wide scope to deal with such matters as anti-dumping and countervailing duty petitions and requests for import relief under the "escape clause" procedures written into the Trade Act. Instead, it has sought to bind the executive to take action in the event that certain legal criteria concerning findings of injury, evidence of subsidization, and other matters are met.[76] As more U.S. industries are buffeted by competition from imports, use of the unfair trade and escape clause statutes will increase, and Congress may decide to limit further the discretion now afforded to the executive branch under existing trade laws.

Similarly, the question of whether Congress will again bind itself to accept or reject non-tariff barrier agreements within a stipulated time period, and thus give up its constitutional right to pass amendments, merits consideration. It will be recalled that as part of the 1974 Trade Reform Act, Congress agreed to accept or reject any non-tariff barrier agreement signed by the United States during the GATT Tokyo Round within 60 days of its being presented by the president; no amendments would be offered. Several sources interviewed for this study expressed doubt that Congress would be prepared to bind itself in this way again. This raises an important issue for Canada. Ottawa and Washington may seek to negotiate agreements that would have the effect of altering U.S. trade laws. Unless Congress is willing to accept or reject such agreements within a particular period of time without amending what the executive branch has negotiated, Canada will have no clear indication that what it has agreed to will be accepted as is by Congress. Canada's unpleasant experience with the 1979 East Coast Fisheries Treaty may be repeated more often in the future.

Dealing with Congress: Some Considerations for Canadian Policy

There is little reason to believe that the recent growth of Congressional interest and involvement in trade issues will be reversed in the future. Foreign governments have, of course, always had to contend with the uncertainties that surround U.S. foreign policy because of the role and influence of Congress. However, at least in the case of U.S. international economic policy, strong presidential leadership and an apparent willingness on the part of most legislators to allow the executive to be the initiator and formulator of U.S. policy characterized much of the period since the end of World War II. The 1970s saw the development of a more assertive and active Congress that was less willing to defer to the executive in virtually *all* areas of national policy. Although Congress passed the Trade Reform Act in 1974, and accepted the trade accords negotiated as part of the GATT Tokyo Round five years later, it also moved to reduce the scope for executive discretion in dealing with unfair trade complaints and generally strengthened its oversight of U.S. trade policy. In addition, increasing numbers of legislators and Congressional committees became active in international trade and investment issues in the late 1970s and early 1980s. This has served to complicate the U.S. foreign economic policy-making process and has made it harder to monitor, predict and shape Congressional behaviour on international economic issues. Moreover, Congressional decisions on domestic questions increasingly have an impact on foreign economic policy, partly because non-tariff barriers, services and investment are now central issues of international trade. And these trends are likely to continue in the years ahead.

All these developments suggest that both the Canadian government and private sector actors in this country with an interest in trade with the United States should consider carefully whether Congressional activity could be monitored and assessed more effectively; and whether more could be done to influence the outcome of Congressional deliberations on matters affecting the Canadian economy. Some Canadian scholars, diplomats, and business representatives believe that significant benefits could be achieved through a vigorous and systematic effort on the part of the Canadian government and private sector to analyze and lobby the U.S. Congress.[77] Since more than 70 pecent of Canadian exports and almost 20 percent of Canadian GNP depend directly on access to the U.S. market, it follows that Canada should be sensitive to developments that might impair or threaten that access. In the past, the Canadian government has tended generally to rely on "quiet" rather than "public" diplomacy in its commercial relations with the United States.[78] For its part, the Canadian private sector has not established a noticeable presence in Washington, and has not made a systematic or coordinated effort

to assess or influence Congressional deliberations on trade and other economic issues of concern to Canadian business. More generally, it is doubtful that the Canadian public adequately understands either the enormous impact that U.S. economic policy decisions can have on Canada's economic welfare or the profound differences between the Canadian and American legislative systems.

This part of the study first considers the objectives that may be served by paying more attention to the U.S. Congress, then offers some general guidelines with respect to Congressional lobbying by foreign governments and business, and finally discusses the specific question of Canadian lobbying efforts on Capitol Hill by the federal government, private sector, and provincial governments.

Objectives

It is worth asking what objectives might be served through more extensive Canadian lobbying on Capitol Hill and through a more assertive and public type of Canadian diplomacy in Washington generally.[79] One objective may be simply to increase the awareness of the media and of policy makers in Washington of Canada's position on important issues. Although Canada is America's largest trading partner, it is well known that legislators, interest groups, the media and other key U.S. actors know little about and pay scant attention to Canada. Canada's low profile in Washington means that policy makers are unlikely to consider the impact on Canada, or on the U.S.–Canada relationship, of particular bills or proposals under consideration. This in turn suggests that Canada must take the initiative to apprise U.S. policy makers of the Canadian perspective on issues, or else they may fail to consider Canada's views because of a lack of knowledge. This is especially true in the case of Congress, where there is less knowledge of, and sensitivity to, foreign concerns than in the executive branch.

The need for Canada to put forth its views in a clear and assertive fashion is also related to the fading away of the "special relationship," the existence of which in the 1950s and 1960s gave Canada somewhat privileged access to the executive branch. During this period, legislation and proposals affecting Canada would often invite some form of intervention by executive branch officials — usually from the State Department — and some willingness existed in Congress to treat Canada as a special case. Most observers believe that this is not the case today. Executive branch sensitivity to Canadian views and interests appears to be no greater than to those of other allied governments. Interviews with legislative staff and other experts also reveal that there is little disposition on Capitol Hill to accord Canadian views specially favourable treatment.

A second and more ambitious objective of increased Canadian lobby-

ing and diplomatic activity in Washington could be to change or influence the views of U.S. policy makers on matters affecting Canada. To achieve this, it would be necessary to go far beyond simply increasing Canada's visibility in Washington and on Capitol Hill. Indeed, this is where lobbying in the traditional sense comes into play. Legislators and their staffs somehow must be convinced that adopting a position on an issue that is supportive of Canadian views is also in their own interests. To do this, efforts must be made to sound out, work with and perhaps even mobilize domestic U.S. groups and interests which, for their own reasons, are prepared to support the Canadian position.

Members of Congress are highly political and often parochial in their approach to most issues. It is difficult for them to take positions at variance with the views and preferences of strong groups and coalitions in their districts and states. One American commentator humorously noted why this is so some years ago: "A member of Congress has to be concerned constantly with the next election. . . . If a member is not so concerned, it will be said, depending on one's point of view, that he 'had great political courage' or that he is 'contemptuous of public opinion'. In either case, it will almost certainly be said of him after not very long that he is a former member of Congress."[80] Because Congress is filled with people "who are not so much interested in making national policy as in keeping their constituents happy,"[81] legislators almost automatically can be expected to introduce bills in Congress that are detrimental to the interests of foreign trading partners whenever strong constituency pressure is brought to bear on them to protect local industries. (However, as noted previously, few such bills ever pass Congress.)

On the other hand, this same marked sensitivity to local pressures in Congress can also be advantageous to foreign governments and businesses seeking to mobilize or work with domestic groups and coalitions to achieve particular goals. In the sphere of commercial policy, any protectionist measure advocated by legislators in Congress is almost certain to have a negative impact on some U.S. industries, regions or groups. Automobile import quotas, for example, have been opposed by consumer groups and importer associations, although normally those favouring such quotas have been stronger than those opposed. Foreign governments and exporters can seek to influence the positions of members of Congress on trade issues or bills by convincing them that important domestic groups share the views being advanced by the foreign actors. The effort required to undertake this kind of lobbying on a sustained basis is significant in the case of Canada, simply because of the huge volume of commercial transactions between the two countries.

It is noteworthy that many political economists concerned with trade policy have long argued that in a democratic society those groups favouring protectionist policies are usually more effective in lobbying governments and legislators because their interests are narrow and

focussed, whereas the whole community's presumed interest in liberal trade policies is diffused and thus difficult to articulate and mobilize.[82] As one Canadian trade analyst recently wrote, the negative impact on particular groups of increased imports tends to be "direct, severe, and acutely felt by all concerned. However, the incentives for other groups, such as consumers and exporters, to lobby against protection are likely to be much smaller."[83] This suggests that while there is scope for the Canadian government and private sector to work with and make use of American interests supportive of U.S. commercial policies favourable to Canada, the coalitions opposed to protectionist policies may often be weaker and more poorly organized than those anxious to win protection for particular industries.

There may also be a third objective for Canadians of a policy of increased Congressional lobbying and diplomatic activism in Washington, one designed to serve Canadian domestic political ends and needs. The federal government may feel it necessary to demonstrate to the Canadian public that it is taking an active and visible role in promoting Canada's views in Washington. As Doran and Sokolsky put it, "unless the foreign affairs between the two countries become public and relatively visible in Washington, the government in Ottawa frequently must answer to an angry constituency for doing an allegedly inadequate job of political representation."[84]

Whatever else may be said in support (or defence) of this goal, it cannot be claimed that achieving this domestic political objective would enhance Canada's ability to deal effectively and successfully with Congress or with the U.S. government more generally. As an example, take the case of acid rain. Most Canadians are probably aware that the Canadian government has frequently and publicly insisted that the United States take steps to reduce acid rain. In the domestic political sense, Canadian diplomacy on the issue may have been successful — but there is little evidence that Canada's vigorous public diplomacy and lobbying of Congress has itself changed the minds or positions of the U.S. government and U.S. legislators. Canada's interventions have certainly helped to highlight the issue, but they have also earned the enmity of members of Congress from regions of the country opposed to tough (and expensive) new pollution laws to reduce acid rain. It is not complaints and pressure from Canada that will lead U.S. legislators to deal with a problem such as acid rain. Rather, lobbying by U.S. groups that happen to be allied to Canada on particular issues is what will be critical. Canada's public diplomacy on acid rain may have helped to mobilize domestic U.S. opinion against acid rain, but it did not, and cannot, change the strongly held views of congressmen and senators from areas of the country that have developed very different perspectives on the problem.

Lobbying Congress: Some Guideposts

The challenge facing a foreign government or private sector concern in the United States is not so much to lobby the executive branch or Congress to actually take a particular course of action as it is to monitor carefully what goes on in the complex maze of policy making that is Washington. Keeping track of developments in Washington that could potentially affect Canadian commercial interests is an enormous task. In addition to the executive branch, Congress and its myriad committees and the dozens of independent and quasi-independent regulatory bodies (e.g., the International Trade Commission, the Federal Trade Commission, and the Federal Aviation Administration) all require scrutiny. The expansion of the agenda of trade and commercial policy issues to include such subjects as services trade and non-tariff barriers has greatly complicated the job of monitoring and assessing developments in Washington.

Although monitoring and gathering information concerning Congressional deliberations is perhaps the most important task facing Canada and other major U.S. trading partners, there are numerous occasions when more is required and efforts must be made actually to seek to influence how Congress addresses issues. Foreigners may be sensitive about the propriety of being seen to interfere in the U.S. policy process by travelling up to Capitol Hill and lobbying U.S. legislators. Certainly if the U.S. ambassador in Ottawa and his staff were known to be pressuring Canadian members of parliament to adopt particular positions on issues of bilateral concern, it is probable that strong objections would be voiced in various quarters in this country. In the United States, however, the separation of powers means that the system of government is entirely different; individual legislators are expected to make their own decisions on issues, not to follow slavishly the party line or the commands of the whips.

Moreover, both the U.S. government and Congress are usually anxious to obtain information from as many sources as possible prior to making decisions. Foreign governments or entities may have information that is useful to U.S. policy makers. Receptivity to multiple sources of information is a hallmark of the U.S. legislative system. "It is in the nature of the policy process that a wide range of views is canvassed. This is particularly the case with Congress, which is continually seeking sources of information to balance the expert opinions offered by the executive branch."[85] The fragmentation and increasing diffusion of power in Congress since the 1960s has intensified the desire of U.S. legislators for information, and has made it easier for lobbyists — both domestic and foreign — to gain access and to offer their views. Generally, then, foreign governments or organizations need not fear being

denied a hearing on Capitol Hill, simply because they are foreign.

Although it has become more important for foreign governments to pay attention to, and try to influence, the U.S. Congress, this does not mean that the executive branch should be ignored. Those interviewed in connection with this study were unanimous in proclaiming the continued centrality of executive branch support to foreign government lobbying efforts on Capitol Hill. Strong executive branch, and ideally, personal presidential support is the most potent argument available to foreign governments in their dealings with Congress. One Canadian diplomat interviewed suggested that two situations can arise when explicit lobbying of Congress by the Canadian government is unwise: first, when the executive branch and the president are already strongly behind the Canadian position, in which case Canadian lobbying on Capitol Hill is unnecessary and will not provide additional gains; and second, when the executive branch is clearly opposed to the Canadian position, in which case a Congressional decision in favour of Canada is most unlikely.

Although Congress has indisputably become more assertive and influential in U.S. international economic policy making, the executive branch still tends to set the policy agenda and also has within its purview the various regulatory bodies whose decisions can influence U.S. commercial policy. Many legislators try to insulate themselves from constituency pressure on trade issues by delegating authority and initiative to the president and to regulatory agencies. Thus, the increasing involvement of Congress on trade and other foreign economic policy issues in no way constitutes a signal to foreign actors that efforts to influence executive branch views and decisions should take a back seat to Congressional lobbying. Still less does it suggest that foreign governments should seek to outmanoeuvre the executive by regularly taking their case directly to Congress on issues where their views diverge from those of the administration and the president. It is improbable that such a strategy would bear fruit.

In those cases where a foreign government or private interest determines that efforts must be made to influence the decisions of U.S. legislators, a number of factors must be borne in mind before lobbying is undertaken. First, the advantage always lies with the defence on Capitol Hill. It is infinitely more difficult to get something undone in Congress than to prevent its passage in the first instance. This in turn puts a premium on vigilant monitoring of Congressional activities so that an awareness is developed at an early stage in the legislative process of those possible legislative decisions that would affect Canada. Once Canadian officials recognize that a particular issue may be addressed by Congress in a way detrimental to Canada, they can then decide how serious the threat is — recall that most protectionist bills never make much progress on Capitol Hill — and what strategies to employ if the threat appears to be serious. There is simply no substitute for this careful

information-gathering and early-warning activity.

Second, foreign governments must recognize that normally a battle is never entirely won or lost in the U.S. Congress. At each stage in the decision process, a partial victory or loss probably will be registered; but the very multiplicity of stages means that outcomes are typically uncertain and that lobbying that was unsuccessful at one stage may prove fruitful at a later stage. Take the case of a protectionist bill reported out of a Congressional subcommittee. In order to become law, this bill must first be accepted by the relevant committee and then by the whole chamber. Next, approval must come from the mirror committee of the other chamber and from the members of the latter body as a whole. There are several points along the way where lobbying efforts may be useful. Then, a House-Senate conference committee will have to iron out any differences that may exist between the two chambers' versions of the bill in question. Even if both chambers want to pass the bill, the press of time can work to prevent the drafting of a bill acceptable to both of them. If Congress passes the legislation, the president has the option of veto. If he chooses not to, or else his veto is overriden, the affected foreign interests may still salvage something by seeking to influence the way the bureaucracy writes and interprets the regulations that actually put the bill into effect. In some cases, recourse may even be made to the courts, as Canadian-based companies have done in connection with unitary taxation by several U.S. states.

A strategy that is essential to successful Congressional lobbying by foreign governments and firms is to work in alliance with domestic U.S. groups who, for various reasons, may support the position of the foreign interests. It is almost always necessary to build or work with existing coalitions in U.S. politics to win on Capitol Hill. Few U.S. legislators are terribly concerned about the need to maintain overall good relations with foreign governments. As one Canadian diplomat put it, if the only argument Canada can bring to Congress is that general relations between Canada and the United States will somehow be harmed by Congress taking a particular action, "we might as well save the postage." On trade, energy, environmental and other key bilateral issues, Canada must have domestic allies in U.S. politics or else it will not be successful in influencing Congressional decisions. It is normally not too difficult to determine who one's U.S. allies are, but it may at times be necessary for Canada to take the initiative in developing a common position to take to Congress simply because Canadian interests are more directly at stake than are those of allied U.S. groups. Ideally, however, the domestic U.S. groups with whom Canada happens to be allied should take the initiative, since they can claim credibly to represent the views, and thus the votes, of U.S. citizens, whereas no foreign government or private group can possibly make such a claim.

An additional point relevant to the issue of lobbying Congress is that a

distinction must be drawn between those Congressional decisions that affect a foreign interest inadvertently, and those in relation to which it is a target in the minds of U.S. legislators. Most Congressional decisions which affect Canada negatively are aimed entirely or largely at other countries, particularly in the sphere of international trade policy. Often what occurs is that a piece of generally protectionist trade legislation is contemplated by Congress because of its unhappiness with the actions of certain U.S. trading partners — but not of Canada. More common still is a situation where essentially domestic legislation is under consideration by Congress which, if implemented as drafted, would somehow harm Canada. In both these cases, it may be possible to convince Congress to exempt Canada from the effects of the bill through redrafting or some other device. However, because of the U.S. (and Canadian) commitment to the most-favoured-nation principle in international trade, it is normally difficult explicitly to exempt a particular trading partner from protectionist legislation, as Canada discovered in 1983 in the case of specialty steel exports. In some instances, the executive branch, under pressure from Congress, has negotiated voluntary export restraint agreements with foreign nations whose exports to the United States have caused a problem, and Canada's exports were not affected. This has also occurred in the past with steel. In the case of domestic legislation which affects Canada, it may be possible for the Canadian government to get Congress to redraft the bill so it does not have an impact on Canada, provided this does not require abandoning the purpose of the legislation. However, it should not be expected that Canada will often succeed in obtaining sufficient Congressional support to alter proposed legislation that would affect Canadian interests.

International or domestic legislation that inadvertently harms a foreign interest must be distinguished from a legislative action aimed at a particular country. If a bill actually targets Canada, then the lobbying effort required to thwart it will be much greater than that required to alter a bill that unintentionally affects Canada. In addition, it is essential to recognize that under U.S. trade laws, U.S. industries and unions seeking import relief have available to them a large number of legal avenues and options. As noted previously, Congress has moved to limit the discretion of the executive branch to deal with these so-called unfair trade complaints. The whole procedure has become very legalistic in many cases,[86] with the result that foreign lobbying is not only useless, but can actually cause irritation in the executive branch and Congress. Once trade complaints that are of concern to Canada have been filed under the various trade statutes, lobbying Congress will not necessarily serve a useful purpose. If the International Trade Commission recommends import protection following its examination of a particular complaint, as recently happened with imports of steel into the United States, then it may be possible to influence the disposition of the case by

convincing the president not to act on the recommendations of the Commission. But little useful purpose is served by strong foreign political interventions into the legalistic processes through which many trade complaints are channelled. Lobbying will not convince the International Trade Commission not to examine in a fair and factual manner whether certain U.S. industries are experiencing hardship because of import penetration, for this is precisely its statutory responsibility.

Most of those interviewed in the course of researching this study expressed considerable doubt that foreign governments and private sector actors would be well served by seeking to develop a high profile through lobbying the U.S. Congress. One potential consequence of increased Canadian lobbying on Capitol Hill, for example, might be a deteriorating relationship between Canada and the executive branch.[87] Although U.S. government officials and departments understand that foreign governments may have to make their views known directly to U.S. legislators, it is also important that normal diplomatic channels be respected. The State Department has the job of explaining the concerns of other countries to Congress and, while its influence and success may have declined in recent decades, on many matters it will still carry more weight with Congress than the positions advanced by foreign governments. In addition, if Canada and other countries choose to exercise "public" diplomacy and make their views known to Americans generally through the media, there may also be a cost in terms of the effectiveness of quiet lobbying efforts with both the executive and legislative branches. As Doran and Sokolsky note, "success with public diplomacy may hinder successful internal diplomacy. . . . For example, embassy statements or leaks to the press that are critical of positions taken by the U.S. Congress could inflame staff or member opinion, thus stiffening the spines of influential Congressmen and women to oppose modifications of legislation helpful to Canada."[88] This is not to suggest that a more public style of diplomacy, including increased lobbying of Congress, should be eschewed. Instead, the point is simply to recognize that overt attempts to influence American legislative and media opinion may be detrimental to Canadian interests over the medium and long term. Nor is it at all clear that "public" diplomacy will actually achieve positive results in the sense that it will change the positions of the U.S. government and legislators or issues of importance to Canada.

The Canadian Response

The Canadian government, the business community, and even some provincial governments have become more concerned about the impact of Congress on U.S. commercial policy and its enhanced role in the policy process generally. That both private and public sector actors in Canada should do more to monitor and to try to shape events in Wash-

ington is not disputed by this writer. The overwhelming importance of U.S. economic policy to this country's well-being is reason enough for Canada to pay close attention to U.S. developments and to seek some measure of influence over U.S. policies that affect Canada. In the remainder of the study, some comments are offered on the respective roles of the Canadian federal government, the Canadian business community, and the provincial governments with respect to the U.S. Congress and to the U.S. political system more generally.

The Federal Government

The Canadian embassy has primary responsibility for monitoring, assessing and influencing events in Washington. At present, the embassy has some 15 officers who closely follow the key trade, investment and energy issues in Canada–U.S. economic relations. Other embassy specialists focus on such subjects as fisheries, the environment, and international institutions based in Washington. These officials are not involved exclusively in monitoring and dealing with Congress, even though many of them inevitably devote a good portion of their time to Capitol Hill. Nor are they provided with any significant training or instruction prior to their posting in Washington to enable them to better understand and operate in the U.S. policy-making process generally and on the Hill in particular. To note this is not to imply that the Canadian diplomats assigned to Washington — or those who deal with the United States from Ottawa — are in any sense failing to carry out their responsibilities in an effective manner. Indeed, one thing the Canadian researcher exploring bilateral economic relations soon learns upon arriving in Washington is that the members of our embassy staff are held in high regard, both by knowledgeable American officials and by diplomatic representatives from other nations. The problem is not the quality of the Canadian diplomats, but rather the magnitude of the job that confronts them in Washington.

Several steps could be taken that would allow the embassy to monitor more effectively events in Washington and in Congress and to seize upon opportunities to promote Canada's views and interests. First, in view of the importance of U.S. policy decisions and Congressional deliberations for Canada, it is suggested that the resources available to the embassy should be increased substantially. Several more officers could profitably be assigned to follow trade issues alone; some of these should spend all or the bulk of their time focussing on Congress. Moreover, diplomats assigned to Washington — and especially those whose work will principally involve Congress — should be provided with an opportunity to learn more about the U.S. legislative system prior to assuming their posts. The ways and roles of Congress are apt to be unfamiliar, perhaps even shocking, to even well-educated Canadians used to working in Ottawa, where Parliament is not central to policy making and power is

centralized. Many academic careers in the American political science profession have been devoted almost exclusively to Congress; and while much of what these scholars have produced is irrelevant to Canadian officials who must deal with Washington, the fact that Congress has attracted such widespread and intense interest from U.S. political scientists and other political observers indicates how complex the institution is and how influential is its role in the American political system and policy process.

Another useful step that has already been taken in a preliminary way would be to rely more heavily on outside counsel and expertise. The Canadian government announced in 1983 that a budget of some $650,000 had been allocated for hiring consultants in Washington. This allowed the embassy to retain outside experts to assist in following developments on Capitol Hill, in devising strategies to influence Congress where Canadian interests are at stake, and in lobbying legislators and their staffs. Although the amount of money involved is rather small by Washington standards, it appears that the Canadian embassy has gained some valuable input and advice from those with whom it has worked, and there is reason to believe that a modest increase in the funds allotted for this purpose would be useful. It might also be worthwhile for the Canadian government to retain knowledgeable outside experts to assist Canadian consulates in monitoring developments in certain key state capitals. This has already been done in New York State, and should be considered in other states with which Canada has extensive economic relations (e.g. California, Illinois and Ohio).

Any discussion of how the Canadian government might improve its ability to understand the influence of the U.S. Congress naturally leads to a consideration of some of the broader questions that lie at the heart of Canada's overall approach to relations with the United States. In this connection, it is worth mentioning briefly the view of some observers who believe that the Canadian government should change drastically the way it conducts relations with Washington by enhancing the role and the powers of the Department of External Affairs with respect to the management of Canada–U.S.relations and by placing more of a priority on the United States in terms of the allocation of diplomatic and governmental resources. It has been argued, for example, that External Affairs should become a "strategic" central agency, charged with the responsibility of managing *all* facets of Canada's relations with the United States.[89] This would result in reduced authority for other federal departments to deal with Canada–U.S. issues that fall within their own areas of functional jurisdiction; it would also require a substantial increase in the resources devoted by External Affairs to Canada–U.S.relations. According to this view, External should attach a much higher priority to the United States and significantly enlarge its U.S. bureau in Ottawa. Stephen Clarkson has gone one step further, and suggested that consid-

eration be given to establishing a completely new government body to fashion and implement a more coherent Canadian strategy for managing relations with the United States. This institution would, in effect, constitute a separate and autonomous branch of the Department of External Affairs, and take over from the existing department the responsibility for all bilateral relations. As Clarkson has put it,

> This American office could take over the expanded functions of the embassy and consulates throughout the United States. Its staff would be recruited less for traditional diplomatic talents than for their more commercial, political and economic abilities to relate to businessmen, deal with interest groups and keep a vigil over economic developments. Above all it would monitor the American political process in order to develop a detailed knowledge of the complex workings of the entire United States polity as well as a capacity to exert influence within it.[90]

This proposal goes substantially farther than what is envisaged here, but this writer shares Clarkson's concern that External Affairs has not attached sufficient priority to the United States in its internal allocation of resources, and that the Canadian government as a whole has failed to realize that economic relations with the United States are nothing less than a matter of national security for Canada. In addition to increasing the size and role of the Canadian embassy in Washington, it is suggested that the U.S. bureau of External Affairs in Ottawa be enlarged and given a status considerably higher than the other regional bureaus in the department, as befits the importance of the United States to this country's welfare. It is also recommended that the Canadian government be prepared to allocate substantially more funds for the purposes of increasing the awareness of American legislators of Canada and of the benefits which the United States itself derives from the most extensive bilateral economic relationship in the world.

The Business Community

The Canadian private sector has a vital interest in the decisions taken by the U.S. government on trade and other economic policy issues, but to date the Canadian business community has not made a systematic effort to improve its abilities to monitor, assess and influence the U.S. policy-making process generally or Congress in particular. The paucity of attention paid to Congress by Canadian businesses and their organized associations has recently been the subject of critical comment by academics, journalists, diplomats, and business spokesmen themselves.[91] It is true that some large Canadian companies have a retainer relationship with Washington-based law firms or consultants who presumably follow events of direct concern to their clients. However, it is striking that only three Canadian companies have public or government affairs staffs based in Washington, and that the Canadian business community as a whole has not sought either to increase Americans'

awareness of the bilateral economic relationship and its benefits to the United States, or to establish a strong Canadian business presence in Washington. According to one Canadian business executive based in Washington, "the time is long overdue for a coalition of Canadian business and trade associations to establish in Washington a Centre for Canadian Industry (CCI). Its mission would be to [represent] all Canadian business and industry. It would speak for Canadian industry to the Administration, to the Congress, and to the myriad U.S. agencies and associations that impact on North American trade and influence the legislation and regulations that direct it."[92]

This writer also maintains that the Canadian private sector should make a serious effort to improve American understanding and knowledge of Canada by financing Canadian studies programs at U.S. universities, promoting visits to the United States by Canadian artistic organizations, and generally engaging in much more general public relations work in Washington and elsewhere in the country.[93]

Because of the enormous diversity among the disparate elements of the Canadian business community that have an interest in U.S. economic policy, it is unlikely that a single organization based in Washington could lobby effectively on behalf of the Canadian business community. The number of Canadian interests potentially affected by U.S. policies is so vast, and the impact which particular U.S. policy decisions would have on Canada's private sector is so varied and differentiated, that it is unrealistic to believe that one omnibus lobbying organization could satisfy the needs of all Canadian companies. What might be useful, however, is some kind of information clearing house and monitoring agency in Washington sponsored by the private sector. Such an organization could be supported by a wide range of Canadian private sector firms that have in common a concern about U.S. policy decisions and a need to know more about what is happening in such key areas as trade policy and industrial policy.

The main purpose of a Canadian private sector monitoring agency would be to pay close attention to developments in Congress and elsewhere that affect, or may eventually affect, Canadian commercial interests. In carrying out this enormous task, the agency should work closely with the Canadian embassy, which has long experience following and assessing the U.S. policy process. The agency could also provide some assistance to Canadian firms or associations that require more specialized advice as to how to influence Congressional deliberations or regulatory decision on particular issues. However, this proposed Canadian business organization would not actually undertake to lobby on Capitol Hill or elsewhere in Washington on behalf of Canadian firms; the interests, problems and views of Canadian business are too disparate, and the range of lobbying tasks too varied, for this approach to be practicable.

Over time, a Canadian business agency or organization based in Washington could have a number of positive effects. It would certainly help to sensitize and educate the Canadian business community about the U.S. policy-making process. It would provide an early warning service with respect to developments in Congress and elsewhere that could affect Canadian business. By gathering together information pertinent to the Canadian private sector and then communicating that information back to interested companies and associations, a Canadian private sector office could offer a useful service to many Canadian industries and businesses, particularly those that now lack or cannot afford representation in Washington. Finally, the Canadian business community could help to promote a better understanding of Canada, and of the importance of Canada to the United States, by making use of a Washington office to perform a public relations role with American legislators, the media and other opinion moulders.

The Provinces

Although the Canadian government appears to have constitutional primacy in the area of international economic relations, this has not prevented the provinces from moving to deal directly with foreign economic policy issues or from seeking to pursue their own interests vis-à-vis the United States. Many provinces have established provincial departments of intergovernmental affairs in which a capability to address foreign trade and other international issues has been developed. However, although some provinces, including Quebec, Ontario and Alberta, have often expressed the view that the federal government and the embassy in Washington do not properly represent their interests and do not provide enough high-quality intelligence concerning developments in the United States, they have refrained from establishing their own offices or quasi-embassies in Washington.

The specific question of how best to deal with the U.S. Congress is not one which has elicited much attention from provincial governments. The provinces are aware of the increasing importance of Congress in the areas of trade and commercial policy, and Ontario in particular is supportive of further efforts to strengthen the ability of the Canadian embassy to monitor and influence developments in Congress. Several provinces are unhappy about the quality of the information concerning Congressional activity which they receive from External Affairs,[94] and this has led them to retain their own experts in Washington to monitor developments on the Hill and elsewhere that are relevant to their own provincial economies. Given the scale of provincial economic involvement with the United States, there is nothing unusual about this, and it should pose no threat to Ottawa's efforts to assess and influence the views of U.S. legislators.

Conclusion

The Canadian government and the private sector should devote more effort and resources to the challenge of understanding and operating effectively within the U.S. legislative and policy-making system. Canada should be willing to work with sympathetic U.S. interests to influence Congress on issues of importance to this country. However, care must be taken to ensure that the lobbying process remains modest and under control. The possible gains from increased governmental or private sector lobbying on Capitol Hill should not be exaggerated. It will not result in the sudden resolution of difficult issues or the quick elimination of threats to Canadian interests. In the case of the Canadian government, it is essential to ensure that good relations with the executive branch are not sacrificed in the pursuit of influence in Congress. This concern is perhaps less relevant for the Canadian private sector, which need not reflect, and certainly does not represent, the official position of the Canadian government when it becomes involved in the policy-making process in Washington. The Canadian private sector should not really even think of itself as "Canadian" when it seeks to have influence in Washington. It should work regularly with sympathetic U.S. groups to affect Congressional actions. Intergovernmental diplomacy need not come into play when Canadian firms join with U.S. allies in trying to thwart Congressional actions detrimental to their interests or in endeavouring to promote particular policies on Capitol Hill. Canadian industry can be effective in doing this only to the extent that it is supported by U.S. domestic groups. The limited leverage that the Canadian government enjoys on Capitol Hill simply because it speaks for America's closest ally and trading partner will not be of much help to Canadian business or other private interests.

Regardless of the additional efforts that may be made to improve the capabilities of the Canadian government and private sector to monitor and affect developments in Congress, the focal point of Canadian diplomatic attention and strategy in Washington should continue to be the executive branch. Rarely if ever will Canada succeed in convincing Congress to make a decision favourable to Canada if the executive branch is strongly opposed to it. Similarly, Canada's efforts to prevent Congress from taking particular actions will probably be more successful to the extent that the executive branch supports the Canadian position. This fundamental fact must not be forgotten in the rush to pay more attention to the legislative branch of the U.S. government.

Notes

This paper was completed in November 1984.

The author prepared this study in his capacity as a private researcher. The views expressed do not necessarily reflect those of his employer.

1. Stephen Cohen, *The Making of United States International Economic Policy* (New York: Praeger, 1977), p. 58.
2. John H. Jackson, *Legal Problems of International Economic Relations: Cases, Materials and Text* (St. Paul: West Publishing, 1977), chaps. 3 and 4 provide a comprehensive treatment of Congress's powers over commercial policy.
3. By far the most comprehensive treatment of Congress's role in the evolution of U.S. international economic policy is Robert Pastor, *Congress and the Politics of U.S. Foreign Economic Policy, 1929–1976* (Berkeley: University of California Press, 1980).
4. Benjamin Cohen, *American Foreign Economic Policy: Essays and Comments* (New York: Harper and Row, 1968), p. 20.
5. Pastor, *Congress*, pp. 71–72.
6. Ibid., pp. 72–73.
7. A good analysis of U.S.tariff policy is Sidney Ratner, *The Tariff in American History* (New York: D. Van Nostrand, 1972). See also Pastor, *Congress*, pp. 75–76 on the importance of the tariff as a source of government revenue in the 1800s.
8. Ibid., p. 75.
9. The significance of Smoot-Hawley is discussed in ibid., pp. 77–83, and by Joseph M. Jones, a contemporary economist, in his *Tariff Retaliation: Repercussions of the Hawley-Smoot Bill* (Philadelphia: University of Pennsylvania Press, 1934).
10. See ibid. and E.E. Schattschneider's famous study, *Politics, Pressures and the Tariff* (New York: Prentice-Hall, 1935). Schattschneider was of the view that Congress was bound to produce protectionist trade policies because of the practice of "log-rolling" by risk-avoiding legislators, all of whom had some industries in their districts and states that sought protection. What he failed to consider was the possibility that growing numbers of American industries would become increasingly export-oriented, and hence supportive of a more liberal trade policy.
11. Pastor, *Congress*, pp. 79–80.
12. Schattschneider, *Politics*, p. 145.
13. Charles Kindleberger, *The World in Depression* (Berkeley: University of California Press, 1973).
14. Pastor, *Congress*, pp. 84–93, quote from p. 92; see also Ratner, *The Tariff*, pp. 147–49.
15. Ibid., p. 152.
16. J. Evans, *The Kennedy Round and American Trade Policy* (Cambridge: Harvard University Press, 1971), p. 7.
17. Ibid., pp. 11–12; F.V. Meyer, *International Trade Policy* (London: Croom Helm, 1978), pp. 137–38.
18. On the demise of the ITO, consult William Diebold, *The End of the ITO* (Princeton: Department of Economics, Essays in International Finance, 1952).
19. John H. Jackson, *World Trade and the Law of GATT* (Indianapolis: Bobbs-Merrill, 1969), pp. 60–66.
20. Meyer, *International Trade Policy*, pp. 138–42; Karin Kock, *International Trade Policy and the GATT, 1947–1967* (Stockholm: Almqvist and Wiksell, 1969), pp. 95–99.
21. John M. Leddy and Janet L. Norwood, "The Escape Clause and Peril Points under the Trade Agreements Program" in *Studies in U.S. Commercial Policy*, edited by William B. Kelley (Chapel Hill: University of North Carolina Press, 1963).
22. Pastor, *Congress*, p.103. At this time (1958) Congress could only require the president to abide by Tariff Commission recommendations favouring import relief if a two-thirds concurrent resolution were passed.
23. Across-the-board, or linear tariff reductions occur when negotiating states agree to a formula for reduction of tariffs across all or a wide range of traded goods. This is in

contrast to so-called "item-by-item" tariff cuts, whereby states negotiate particular tariff cuts on individual or a small number of traded goods. See Jock A. Finlayson and Mark W. Zacher, "The GATT and the Regulation of Trade Barriers," *International Organization* 35 (Autumn 1981): 571–72 for a discussion of the transition from item-by-item to linear tariff negotiations in GATT.

24. On Congressional-executive negotiations over the 1962 Act, see Pastor, *Congress*, pp. 105–17; Evans, *The Kennedy Round*, pp. 139–59; and Ernest H. Preeg, *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations Under the General Agreement for Tariffs and Trade* (Washington, D.C.: Brookings Institution, 1970), pp. 44–56.

25. Ibid., chap. 16; Finlayson and Zacher, "The GATT and the Regulation of Trade Barriers," pp. 571–72; and Kenneth Dam, *The GATT: Law and International Economic Organization* (Chicago: University of Chicago Press, 1970), pp. 72–73.

26. Thomas B. Curtis and John R. Vastine, Jr., *The Kennedy Round and the Future of American Trade* (New York: Praeger, 1971). Curtis was a Democratic member of the House Ways and Means Committee who joined the U.S. delegation in Geneva during the Kennedy Round talks.

27. For a detailed discussion of the U.S. American Selling Price system for valuing chemical imports, see ibid. pp. 93–124.

28. Pastor, *Congress*, pp. 208–17.

29. Benjamin Cohen, "Balance of Payments Financing: Evolution of A Regime," in *International Regimes*, edited by Stephen D. Krasner (Ithaca: Cornell University Press, 1983), p. 333.

30. Ibid., p. 327.

31. James L. Sundquist, *The Decline and Resurgence of Congress* (Washington, D.C.: Brookings Institution, 1981), chap. 6, "The President as Chief Legislator."

32. Ibid., pp. 152–53. For other accounts of the rise of presidential power and initiative, see John Saloma, *Congress and the New Politics* (Boston: Little, Brown, 1969), and David Truman, ed., *The Congress and America's Future* (New York: Prentice-Hall, 1965).

33. Sundquist, *The Decline*, chap. 5; Abraham D. Sofaer, *War, Foreign Affairs and Constitutional Power* (Cambridge: Ballinger, 1976); and Arthur M. Schlesinger, *The Imperial Presidency* (New York: Houghton Mifflin, 1973).

34. Pastor, *Congress*, p. 124.

35. For an exhaustive discussion of NTBs, see Robert Baldwin, *Non-Tariff Distortions of International Trade* (Washington, D.C.: Brookings Institution, 1970).

36. Thomas E. Mann, "Elections and Change in Congress," in *The New Congress*, edited by Thomas Mann and Norman S. Ornstein (Washington: American Enterprise Institute, 1981), pp. 35–37.

37. See Pastor, *Congress*, pp. 111–17, for an examination of how the executive worked closely with the chairman of the House Ways and Means Committee to ensure passage of the 1962 Trade Expansion Act.

38. For a discussion of institutional changes in Congress in the 1970s and how these have affected the way Congress deals with commercial policy issues, see the next section of this paper.

39. See Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence* (Boston: Little, Brown, 1977), especially chaps. 1–3 for a discussion of the growth of international economic interdependence.

40. Bruce R. Scott, "National Strategy for Stronger U.S. Competitiveness," *Harvard Business Review* (March–April 1984); Robert Reich, "Beyond Free Trade," *Foreign Affairs* 61 (Spring 1983); Reich, *The Next American Frontier* (New York: Penguin, 1983), pp. 11–17.

41. Scott, "National Strategy."

42. Albert Bressand, "Mastering the 'World Economy'," *Foreign Affairs* 61 (Spring 1983): 753–58; OECD, *The Impact of the Newly Industrializing Countries on Production and Trade in Manufactures* (Paris: OECD, 1979).

43. For a discussion of VERs, see Bela Balassa, "The New Protectionism and the International Economy," *Journal of World Trade Law* 12 (September–October 1978).

44. Reich, *The Next American Frontier*; Scott, "National Strategy."

45. Two documents that illustrate the popularity of the idea of a national industrial strategy among at least some Democrats in Congress are *Jobs for the Future, A Report of the Senate Democratic Caucus*, November 1983; and *The United States in a Changing World Economy: The Case for an Integrated Domestic and International Commercial Policy*, Staff Report of the Committee on Energy and Commerce of the House of Representatives, September 1983. The latter document was prepared under the direction of Rep. John Dingell, Democratic congressman for Michigan, who chairs the House Energy and Commerce Committee and is a leading proponent of a more vigorous U.S. industrial strategy. Under Dingell's leadership, the committee has moved decisively to challenge the jurisdictional primacy of the House Ways and Means Committee, traditionally the most important committee in the House with respect to trade matters.

46. See Baldwin, *Non-Tariff Distortions*, chap. 1.

47. Canada, *A Review of Canadian Trade Policy* (Ottawa: Minister of Supply and Services Canada, August 1983), pp. 183, 208.

48. Sundquist, *The Decline*, pp. 378–95; Norman J. Ornstein and David W. Rhode, "Revolt From Within: Congressional Change, Legislative Policy, and the House Commerce Committee," in *Legislative Reform and Public Policy*, edited by Susan Welch and John Peters (New York: Praeger, 1977); Lawrence C. Dodd and Bruce I. Oppenheimer, eds., *Congress Reconsidered* (Washington, D.C.: Congressional Quarterly, 1981); Roger H. Davidson, "Subcommittee Government: New Channels for Policy Making," in *The New Congress*, edited by T.E. Mann and N.J. Ornstein, pp. 106–108 (Washington, D.C.: American Enterprise Institute, 1981).

49. Sundquist, *The Decline*, pp. 378–90; Lawrence C. Dodd and Bruce I. Oppenheimer, "The House in Transition: Change and Consolidation," in *Congress Reconsidered*, pp. 31–62.

50. Sundquist, *The Decline*, pp. 390–95; Norman J. Ornstein, Robert L. Peabody, and David W. Rhode, "The Contemporary Senate: Into the 1980s," in *Congress Reconsidered*, pp. 13–30.

51. Davidson, "Subcommittee Government."

52. Ibid., p. 114.

53. Ibid., p. 109.

54. Interview with Matthew J. Abrams, President, The Canadian-American Company, Washington, D.C., February 1984.

55. Davidson, "Subcommittee Government," p. 123.

56. Ibid., p. 131.

57. Sundquist, *The Decline*, pp. 402–16; Pastor, *Congress*, pp. 16–21; and Michael J. Malbin, "Delegation, Deliberation, and the New Role of Congressional Staff," in *The New Congress*, edited by T.E. Mann and N.J. Ornstein, pp. 134–77 (Washington, D.C.: American Enterprise Institute, 1981).

58. Ibid., p. 141.

59. Ibid., pp. 142–43.

60. Nelson Polsby, "The Washington Community, 1960–1980," in *The New Congress* (Washington, D.C.: American Enterprise Institute, 1981), p. 29.

61. Ibid., p. 12.

62. Thomas Mann, *Unsafe at Any Margin: Interpreting Congressional Elections* (Washington, D.C.: American Enterprise Institute, 1978); Kenneth Shepsle, *The Giant Jigsaw Puzzle: Democratic Committee Assignments in the Modern House* (Chicago: University of Chicago Press, 1978), pp. 31–34; Polsby, "The Washington Community"; Sundquist, *The Decline*, part two; David Mayhew, *Congress: The Electoral Connection* (New Haven: Yale University Press, 1974).

63. Mann, "Elections and Change in Congress," p. 38.

64. Raymond J. Ahearn and Alfred Reifman, "Trade Policymaking in the Congress," in *Recent Issues and Initiatives in U.S. Trade Policy*, edited by Robert E. Baldwin (New York: National Bureau for Economic Research, 1983), p. 55.

65. Ibid., pp. 55–57; Cohen, *The Making of United States*, pp. 58–60; *Congressional Staff Directory*, 1982.

66. Pastor, *Congress*, pp. 123–129.

67. Ibid., chap. 5; and I.M. Destler, *Making Foreign Economic Policy* (Washington, D.C.: Brookings Institution, 1980), chaps. 10 and 11.

68. William R. Cline, *'Reciprocity': A New Approach to World Trade Policy*? (Washington, D.C.: Institute for International Economics, September 1982), p. 7.

69. Ibid., p. 8.

70. Ibid., pp. 8–10.

71. Ahearn and Reifman, "Trade Policymaking in the Congress," pp. 39–40.

72. Ibid., p. 38.

73. Ibid., pp. 40–41.

74. *Wall Street Journal*, April 9, 1984, p. 37.

75. See Rodney de C. Grey, *United States Trade Policy Legislation: A Canadian View* (Montreal: Institute for Research on Public Policy, 1982).

76. Ibid., pp. 13–18.

77. Stephen Clarkson, *Canada and the Reagan Challenge* (Ottawa: Canadian Institute for Economic Policy, 1983); Roy Cottier, "Canadian Industry Must Begin to 'Work the Hill' in Washington," *Toronto Star*, August 18, 1983; Ambassador Allan E. Gotlieb, "Canada–U.S. Relations: The Rules of the Game," *SAIS Review* (Summer 1982), pp. 177–88.

78. Charles F. Doran and Joel J. Sokolsky, *Canada and Congress: Lobbying In Washington* (Washington: Centre for Canadian Studies, Johns Hopkins University, 1984), chap. 1.

79. This section is drawn from ibid., pp. 20–27.

80. Francis O. Wilcox, *Congress, the Executive and Foreign Policy* (New York: Harper and Row, 1971), p. 96; cited in Pastor, *Congress*, p. 37.

81. Pastor, *Congress*, p. 36.

82. W. Corden, *The Theory of Protectionism* (Oxford: Oxford University Press, 1971).

83. Margaret Biggs, *The Challenge: Adjust or Protect* (Ottawa: North-South Institute, 1980), p. 118.

84. Doran and Sokolsky, *Canada and Congress*, p. 27.

85. Ibid., p. 54.

86. Grey, *United States Trade Policy Legislation*.

87. Doran and Sokolsky, *Canada and Congress*, pp. 30–34.

88. Ibid., p. 34.

89. Clarkson, *The Reagan Challenge*, pp. 294–300.

90. Ibid., p. 300.

91. Ibid., pp. 310–14; Ambassador Allan E. Gotlieb, "Canada–U.S. Relations: New Rules for Canadian Business," speech delivered to the Montreal Canadian Club, March 21, 1983 (available from the public affairs division of the Canadian embassy in Washington, D.C.); Jeffrey Simpson, "Showing the Flag," *Globe and Mail*, April 18, 1984; Diane Francis, "Canada Has Feeble U.S. Lobby," *Toronto Star*, July 22, 1984; Roy Cottier, "Canadian Industry Must Do More to 'Work the Hill' in Washington, D.C.," *Toronto Star*, August 18, 1984.

92. Roy Cottier, "Associations in the Information Age," speech delivered to the Institute of Association Executives, Saskatoon, August 12, 1983 (available from the corporate affairs department of Northern Telecom in Ottawa), p. 28.

93. Ibid., pp. 28–30.

94. Clarkson, *The Reagan Challenge*, pp. 301–10.

United States Response to Canadian Initiatives for Sectoral Trade Liberalization: 1983–84

Gary Clyde Hufbauer and
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Introduction

Trade relations with the United States have been a continuing concern for Canada from colonial times to the present. Since Canada's adoption of the protectionist National Policy of 1879, several attempts have been made to negotiate freer trade between the two North American nations. In 1983, following the publication of the Department of External Affairs' trade policy review, Canada initiated what are generally known as sectoral free trade talks with the United States. At the time this paper was completed, in late 1984, official negotiations between the two countries had not begun, but several high-level meetings had been held, which resulted in the commencement of a work program in four designated sectors. Preliminary work continued throughout 1984, but the overall fate of the sectoral initiative awaited a policy decision by the newly elected Progressive Conservative government.

The purpose of this paper is to examine the likely U.S. response to Canada's initiative for sectoral trade discussions. Interest in possible new trade arrangements with the United States has increased in Canada in recent years, but little effort has been directed toward analyzing the relevant issues from an American perspective. As with any international negotiation, trade agreements are not possible unless all the parties involved believe that their national and commercial interests will be served. By focussing on the question of bilateral trade talks from a U.S. perspective, this paper seeks to make Canadian readers aware of some of the concerns that will motivate the U.S. government and its constituents regarding that nation's trade policies toward Canada. Although the analysis is concerned mainly with the sectoral free trade initiative, much

of the information included here bears on other issues in Canada–U.S. trade relations and is certainly relevant to a consideration of the possible American reaction to the idea of negotiating either a broader free trade accord or functional accords with Canada.

After a brief historical overview, we examine in detail the 1983–84 Canadian initiatives for sectoral bilateral trade liberalization, first reviewing recent U.S. bilateral initiatives and then examining the Canadian sectoral initiatives in detail. Since the conclusions concerning the sectoral initiative are largely negative, the section following that reviews the possibility of liberalization along functional rather than sectoral lines. Attitudes and interests of major actors are then assessed, including those of the U.S. Congress and Administration, trade unions and trade associations, and other U.S. trade partners. In the concluding section we offer recommendations on how a bilateral approach might be pursued.

This paper is based on data gathered from interviews and questionnaires with five important groups of actors on the U.S. side: the Administration; the Congress; trade associations (e.g., the Chemical Manufacturers Association); trade unions; and key U.S. trading partners other than Canada. Forty confidential interviews were conducted with leading officials in the above groups, including the U.S. Trade Representative and the Departments of Commerce, State, and Treasury; the House Ways and Means Committee, the Senate Finance Committee, and the Commerce and Foreign Affairs Committees of each chamber; executive officers of sectoral trade associations and broader based organizations such as the Chamber of Commerce and the AFL/CIO; and, finally, the Mexican, European Community (EC) and Japanese trade delegations in Washington. Additionally a six-page mailed questionnaire was circulated more widely to the same groups indicated above. Usable responses were received from 34 trade associations, 6 unions, 5 administration officials, and 15 legislators. The responses to the questionnaire were examined qualitatively, and these data were used to corroborate the information collected in the interviews.

Historical Background and Overview

When Great Britain terminated colonial preferences in 1846, Canada quickly looked toward the United States as a market for its displaced output. An initial Canadian proposal for a reciprocity agreement was coolly greeted by the United States, a response often encountered in later years.[1] Only sustained Canadian diplomacy, threats to raise barriers to U.S. goods, and a dispute over fisheries led to the 1854 reciprocity treaty. The importance of a catalyst, needed to stimulate either U.S. or Canadian moves toward integration, runs throughout the history of bilateral efforts at trade liberalization.

In the wake of the U.S. Civil War, the United States abrogated the reciprocity treaty, partly in anger at Canada's supposed aid to the Confederacy. Subsequent Canadian efforts to resurrect the treaty were spurned by the U.S. Senate, which refused to ratify a new reciprocity treaty in 1874. The Canadian National Policy of high tariffs followed in 1879, and was sustained by the 1891 and 1911 elections, when governments in favour of reciprocity were defeated. U.S. tariff policy also moved toward protection in the 1920s and 1930s, and U.S. enthusiasm for high tariffs was curbed only by the Great Depression: the Trade Agreement Act of 1934 facilitated bilateral tariff reductions in 1935 and 1938.

World War II led to closer bilateral economic cooperation. In 1944, unilateral, but nearly simultaneous, Canadian and U.S. initiatives produced a success in trade liberalization: the complete removal of tariffs on agricultural machinery and implements. Other trade accords, such as the defense production sharing arrangement, grew out of World War II cooperation. Secret talks on a free trade area proceeded in 1947–48. Canadian interest was stimulated by a severe exchange crisis due to Europe's inability to pay for Canadian imports. The United States, for its part, was willing to accept transitional safeguards for Canada. Article XXIV of the General Agreement on Tariffs and Trade (GATT) was drafted in anticipation of, and designed to accommodate, a Canada–U.S. accord. Negotiations resulted in a draft agreement for a free trade area, but talks were abandoned by Prime Minister Mackenzie King at a late hour.

In the postwar era, Canada–U.S. economic relations have followed a roller-coaster pattern. Renewed efforts at cooperation, such as the automobile agreement, military co-production agreements, and the fisheries treaty, usually occurred only in response to identifiable bilateral friction, rather than as part of an inevitable march toward free trade. Meanwhile, in an era of multilateral trade negotiations, efforts to reach bilateral solutions have been regarded as side-street commercial diplomacy.

Since 1960, Canadian policy toward bilateral liberalization has wandered, and political factors have usually overshadowed economic goals. The relationship with the United States is always a campaign issue in Canada. Talk of free trade goes hand in hand with talk of economic disengagement. If the United States is seen to suffer from schizophrenia in its trade policy, Canada certainly can be diagnosed as suffering from the same malady. As one observer stated to us: "Canada should decide on either a politically based strategy or an economically based one, and stick to it. The [United States government] is not the only one which changes policy horses in mid-stream."

This paper therefore attempts to chart the next ascent in the roller coaster of Canada–U.S.commercial relations. In doing so it focusses on U.S. attitudes toward bilateral trade liberalization.

Until recently, U.S.trade liberalization efforts were premised, almost

exclusively, on initiatives undertaken through the GATT. Seven GATT rounds of tariff cuts and new codes to govern nontariff barriers culminated with the Tokyo Round, concluded in 1979. The United States came away from the Tokyo Round with a feeling that the GATT process might not be capable of coping with the growing set of nontariff trade barriers. As the U.S. economy moves increasingly to a service economy, a trade sector not regulated by the GATT, and as U.S. foreign investment is increasingly subject to host country restrictions which have an adverse trade impact, U.S. officials now see even more need to re-evaluate U.S. trade policy priorities.

Another factor has encouraged U.S. policy makers to take a new attitude. The growing merchandise trade deficit, largely attributable to the high value of the dollar and faster U.S. economic recovery, has sparked widespread concern about the existing trade order. The policies of certain key trade partners are perceived as "unfair," especially in derogating from the national treatment principle that, if observed, would give U.S. business better access to foreign markets. (National treatment requires that foreign entities and products be accorded treatment equivalent to that given domestic entities and products by a host government.)

As a consequence, while the United States has continued to affirm its commitment to the multilateral system, bilateralism has attracted renewed interest. Indeed, the term "reciprocity,"[2] the scourge of the trade community in the post-Depression era, has won new converts. Whether the stirrings in U.S. commercial policy during the early 1980s represent a passing phenomenon or a true doctrinal shift is not yet clear.

U.S. Bilateral Initiatives: Protection and Liberalization

Before turning to Canadian issues, it is useful to review the major recent U.S. commercial initiatives taken outside the traditional multilateral framework. The United States has often pursued bilateral options for purposes of trade protection rather than trade liberalization. For example, U.S. restrictions on textiles (since 1957), steel (since 1969), and automobiles (since 1981) were imposed using the device of bilateral restraint agreements. By contrast, the United States has preferred to pursue trade liberalization, at least up until the end of the Tokyo Round, within a multilateral framework. The most notable exception was the automobile agreement with Canada.

However, the Tokyo Round seemed to exhaust the GATT system as an instrument for global trade liberalization, at least for the period 1980–84. With the failure of the GATT Ministerial meeting in 1982 to agree on a concrete formula to move liberalization forward, the United States directed its trade-liberalizing energies into bilateral channels.[3] Special

efforts were made to open the Japanese market, to enact the Caribbean Basin Initiative (CBI), to reach a free trade arrangement with Israel, and to open talks with Canada and countries of the Association of Southeast Asian Nations (ASEAN — Singapore, the Philippines, Malaysia, Thailand, Indonesia and Brunei). In addition, the United States sought to mitigate the impact of trade-related performance requirements by negotiating bilateral investment treaties.[4] Treaties have been concluded with a handful of nations, including Egypt, Panama, Zaïre, and Haiti. In short, during the period 1980–84, side-street commercial diplomacy moved to the main street.

Almost since the end of the Tokyo Round in 1979, the United States has pressed Japan to liberalize its imports of beef and citrus, and high technology procurement by Nippon Telephone and Telegraph (NTT). These initiatives were designed to benefit U.S. exporters, but concessions were not formally limited to U.S. goods. A recent significant development is the U.S.–Japan agreement to eliminate tariffs on semiconductors. The U.S. Trade Representative was granted the negotiating authority required to implement the semiconductor agreement in the Trade and Tariff Act of 1984, which passed the Congress on October 9, 1984.

The boldest U.S. initiative along bilateral lines is the CBI. Implemented in the 1982–84 period, it involves an aid, trade, and tax package, motivated by U.S. fears that Soviet and Cuban subversion would spread chaos in the Caribbean region. It was reasoned in Washington that more economic progress would mean less fertile ground for political revolution. The trade provisions enable one-way, duty-free entry for specified products from eligible Caribbean nations. The CBI represents a large-scale departure from the most-favoured-nation principle, the type of departure that the United States opposed when applied by the European Community to the Lomé Convention countries.

More recently, the United States has moved toward a formal free trade agreement with Israel. The United States also solicited Egypt's interest in a similar arrangement, but Egypt has shown no disposition to enter an accord. The Trade and Tariff Act of 1984 includes an explicit negotiating mandate for free trade discussions, on either a sectoral or a comprehensive basis, with other countries, including Canada.

The U.S. initiative to sign bilateral investment treaties with a large number of developing nations reflects strong concerns about the trade-related performance requirements (TRPRs) imposed on U.S. direct foreign investments. These TRPRs often entail commitments on local sourcing and exports that adversely affect U.S. trade flows. Such TRPRs were the subject of the GATT panel that concluded that the local sourcing requirements imposed by Canada's Foreign Investment Review Agency violated GATT Article III.[5]

U.S. Response to the Canadian Sectoral Initiative

As of late 1984, the top-ranked initiative on the agenda of Canada–U.S. trade talks continued to be the sectoral proposal that emerged in the wake of the Department of External Affairs trade policy review in August 1983.[6] In the period between the automobile agreement of 1965 and the External Affairs paper of 1983, Canada–U.S. commercial relations were buffeted by the Nixon import surcharge, the "third option," the creation of the Foreign Investment Review Agency (FIRA), the National Energy Program (NEP), and the fisheries dispute. In 1983, the government of Pierre Trudeau gave the sectoral option high visibility in Canada, and awakened interest in the United States. Canadian exports to the United States are an economic bright spot: in 1983 they surged 15 percent, to Cdn$66 billion, or 73 percent of all Canadian exports. The importance of the U.S. market underscores Canada's priority interest in the question of secure access, the key motivation for the sectoral initiative.[7]

The sectoral initiative presupposes that self-balanced liberalization packages, which are mutually attractive to firms on both sides of the border, can be designed on a sector-by-sector basis. It does not envisage the trade-off of concessions across sectors. In a meeting between the Canadian Minister for International Trade, Gerald Regan, and U.S. Trade Representative William Brock on February 17, 1984, a work program on four sectors was agreed upon: government procurement with an emphasis on surface transportation equipment (subway cars and buses), informatics (data processing and selected hardware items), agricultural equipment, and steel. It was emphasized that this agenda is preliminary and open to the addition of other sectors. The table below lists products for which an interest in negotiations has been expressed to the U.S. government by U.S. producers. A further meeting scheduled between Regan and Brock to expand the agenda and to set a timetable for discussions and negotiations occurred in Ottawa on June 6, 1984. That meeting, however, produced no agreement to begin negotiations, and the only outcome was a further Cabinet-level meeting scheduled for the fall of 1984, which was ultimately cancelled. As a result of elections in both countries in 1984, movement on trade discussions between the United States and Canada slowed, awaiting a fresh look at priorities in both Ottawa and Washington.

Before commenting on U.S. opinion toward the sectoral initiatives, we review some of the leading sectors that have been mentioned for inclusion. As previously noted, this review is based on interviews and on a questionnaire that was circulated to approximately 200 trade associations.

U.S. Producers' Interest in Canadian Sector Negotiations, by Product: Letters or Advice to the U.S. Trade Representative

Urging Negotiation

Agricultural equipment
Informatics
Electrical equipment
Furniture
Home appliances
Leather
Cosmetics
Fabricated structural steel
Printing and graphic arts
Hardwood
Oilseeds and products
Aluminum products
Power lawnmowers and snowblowers
Sailboats
Copper foil
Insect screening
Auto radiators
Tungsten concentrate

Urging Exploratory Discussions

Paper and paperboard
Lumber and wood products
Specialty steel

In Opposition to Negotiations

Carbon steel
Textiles and apparel
Leather products
Urban mass transit

Source: Office of the U.S. Trade Representative, 1984

Cosmetics

The U.S. cosmetic industry, led by Avon Industries, favours a bilateral reduction in tariffs, which are still a significant trade impediment. Avon, a manufacturer in both countries, believes great efficiencies could be achieved under a free trade regime. Nevertheless the sectoral alternative is seen by some U.S. producers as a second-best alternative to much broader trade liberalization, for example, an accelerated lowering of tariffs by all countries to a zero rate over a five-year period. Meanwhile, major trade barriers cited by U.S. exporters to Canada are the bilingual labelling requirements and customs valuation. Given Canada's constitutional situation, it is unlikely that labelling restrictions will ever be waived. Canada, meanwhile, is making progress toward changing its valuation system.

Some U.S. producers of other nondurable household and consumer goods, such as detergents, soaps, and sundry personal care products, urge inclusion of those industries in either bilateral or multilateral liberalization efforts. At this stage, Canadian reaction to liberalization of trade in cosmetics or kindred personal products is largely favourable, although some licensees of U.S. products appear opposed to sectoral liberalization.

Government Procurement and Urban Mass Transit Equipment

The "Buy America" procurement provisions of the U.S. Surface Transportation Assistance Act continue to irritate the very competitive Canadian industry. For at least a decade, Canada has sought to eliminate barriers for the sale of mass transit rail equipment. The Canadian industry envisages a preferential agreement that would not be opened to third-country suppliers, for example, French, Japanese, and Italian firms.

The leading U.S. producer, Budd, actively opposes any sectoral agreement on mass transit equipment. In the past, consistent with their effort to fight Canadian competition, Budd and the U.S. unions sought countervailing duties on Canadian subway car sales to New York City. While that move was defeated,[8] Budd and the U.S. unions are certain to resist any loss of Buy America protection. Since Canada has no comparable markets to offer Budd, a balanced negotiation within the sector seems out of reach. Moreover, the ardour of Canadian producers for relief from Buy America restrictions has declined, and perhaps evaporated, in recent years, as many of them have opened U.S. plants.

Petrochemicals

Petrochemicals have occupied a prominent place on the bilateral agenda since the Tokyo Round of the GATT.[9] The petrochemical industry remains one of the few sectors in which tariffs significantly impede trade between the United States and Canada.

The Canadian petrochemical industry is pursuing the sectoral approach,[10] even though petrochemicals were not selected for preliminary study in February by Regan and Brock. Canadian and U.S. industry groups have met several times, most recently on April 17, 1984, when the Canadian delegation tabled a long list of products for consideration. The Canadian industry must finalize a list of products for the Canadian government, which will then present the list to the U.S. government for consideration.

Questions concerning the NEP and FIRA were raised by the U.S. industry, and feedstock pricing and subsidies continue to arouse concern.[11] While the U.S. industry is willing to discuss liberalization, it does not appear enthusiastic. The U.S. petrochemical industry is dominated by multinational firms, many with operations in Canada. These

firms are receptive to liberalization. However, a significant minority of U.S. firms have operations only in the United States, and these firms are particularly cautious about liberalization. General appeals to free trade elicit support from the U.S. industry, but when specific products are put on the table, the consensus disappears, and fears about feedstock pricing and Canadian interventionist policies rise to the surface. Negotiations in this sector will not be easy.

Alcohol

The U.S. alcoholic beverage industry does not see tariffs as a major issue. The more basic complaint concerns the discriminatory practices of Canadian provincial liquor boards, in their listing of spirits and wines for sale, and in their production requirements for beer. In fact, the European Community has just taken Canada to the GATT over its alcohol sales practices. Furthermore, the U.S. wine industry is concerned that Canada is importing European wines in bulk and rebottling them for export without indicating the origin of the wine. The United States, however, has little to offer the Canadian alcoholic beverage industry. Even states and counties that run their own liquor stores do not normally discriminate against foreign brands.

Furniture

The U.S. producers argue that the present tariff regime for furniture is inequitable. Some U.S. products face Canadian tariffs as high as 16.9 percent, while similar U.S. rates are only 3.4 percent.

In 1983, Canada exported approximately Cdn$240 million of furniture to the U.S. market, while the United States exported only Cdn$125 million to Canada. About three-quarters of Canadian exports are of office and special purpose furniture, while two-thirds of U.S. exports to Canada are of household furniture. The U.S. industry, which is concentrated in North Carolina and the southern states, believes that the trade imbalance reflects the present tariff differential. The furniture producers have heavily lobbied the U.S. Trade Representative (USTR) to place furniture on the sectoral agenda.

Both the U.S. and Canadian office furniture industries are modern, highly efficient operations. Therefore, an agreement might be possible. In contrast, both the U.S. and Canadian home furniture industries consist of numerous small enterprises.[12] In the United States, however, there are a few large, modern factories. In Canada, there is only one plant with over 500 employees. Most of the Canadian industry is made up of small-scale and cottage producers located in Quebec and Ontario. Many of these small Canadian firms see high tariffs as their passport to survival; they are able to export only a tiny fraction of their production. Thus, it would be difficult to negotiate a balanced package within the furniture sector that included home furniture. The problems inherent in

negotiations in this sector are worsened by the strong competitive impact now felt in the North American household furniture market from third-country producers, such as Taiwan and Yugoslavia.

Meat

The province of Alberta and Canadian beef producers have urged a reduction of trade barriers in red meat. U.S. imports of red meat are regulated by the Meat Act of 1979, which sets a trigger level on imports from such major suppliers as Australia, New Zealand, and Canada, and the smaller suppliers of Central America. In 1982 and 1983, voluntary restraint agreements with the major suppliers were in effect. U.S. imports were down in 1984, and no restraints were imposed. However, the U.S. industry does not appear willing to negotiate away its contingent protection.

Meanwhile, Canadian hog imports are considered a serious threat by U.S. producers. Canadian sales have grown dramatically in the early 1980s. The Congress has held hearings on U.S. hog imports,[13] tariff bills[14] have been introduced, and the U.S. International Trade Commission is studying the conditions of competition between U.S. and Canadian hog markets. U.S. hog producers have filed a countervailing duty complaint, alleging that Canadian sales are subsidized. U.S. veal producers have also raised concerns about Canadian subsidies. While beef and pork are not related issues, liberalization in either appears out of reach.

Informatics

Canada maintains serious nontariff barriers in telecommunications and data processing under the Canada Banking Act. Both the U.S. hardware industry (for instance, IBM, AT&T, Digital Equipment, Apple Computer, and other leaders) and Canadian users of information services (particularly banks, such as the Royal Bank of Canada),[15] together with U.S. and Canadian manufacturers of software and peripherals, favour a bilateral agreement. The Canadian Independent Computer Services Association, meanwhile, fears that a pact could jeopardize jobs for programmers and operators in Canada. In addition to guaranteeing the free flow of data and software, Canada–U.S. negotiations could produce very specific, line-item tariff reductions on computer and telecommunication products, similar to the U.S.–Japan semiconductor tariff reductions. The main difficulties thus far have involved determining the appropriate scope of the sector and non-trade considerations, such as the right to privacy and extraterritorial judicial reach.

The U.S. Administration views this sector as particularly important, since negotiations could set a precedent in the broader area of services trade. Multilateral rules are practically nonexistent for trade in services, and the United States would like to see rules that not only prevent the

growth of restrictions on services trade but also scale down existing barriers.[16] U.S. efforts to establish ground rules were set back when the GATT ministerial meeting failed to agree on a negotiating timetable in 1982, and again when the Organization for Economic Co-operation and Development (OECD) failed to reach agreement on a "data pledge," namely, a standstill on barriers to transborder data flows. The proposed Canada–U.S. accord in the data flow area might serve as a preemptive strike against the growth of barriers to services trade. Similar results could flow from the proposed Israel–U.S. free trade accord, which will include novel commitments on trade in services. Meanwhile, some developing nations, including Brazil, have suggested that data flow exports should be subject to taxes.

Paper and Paper Products

Pulp and newsprint already move duty free in both directions. U.S. tariffs on paper and paper products are minimal, whereas Canada maintains substantial tariffs on some products. The United States has no tariff on printing paper, a major Canadian export. The United States has no tariffs on bleached or recycled paperboard. The U.S. tariffs on writing paper grades (3.8 to 6.2 percent) are overshadowed by the much higher Canadian rates (11.4 percent). Thus, the U.S. paper industry strongly supports liberalization. However, the Canadian paper industry sees little to gain by sectoral liberalization.

Wood and Wood Products

United States manufacturers of hardwood plywood favour bilateral trade liberalization, and prefer a reciprocal bilateral framework. In general, trade relations with Canada are excellent. Canada ships large quantities of birch veneer, the main components of hardwood plywood, to the United States. Duties on this product could be eliminated under a sectoral accord.

Softwood plywood is another story. Canadian standards, seen by the U.S. industry as a nontariff trade barrier, exclude the majority of U.S. softwood plywood grades. During the Tokyo Round, U.S. softwood plywood producers urged the USTR not to negotiate tariff reductions with Canada until an acceptable harmonization of standards was reached that would allow U.S. market access. No progress has been made on standards, and the U.S. softwood plywood producers continue to oppose tariff reductions.

Otherwise, the U.S. wood and wood products industry seems to favour bilateral liberalization. Some segments of the industry would welcome a conditional most-favoured-nation (MFN) approach; that is, preferences between the United States and Canada would be made available to third countries if they extended similar concessions.

Textiles and Apparel

Textiles and apparel were once viewed as candidates for sectoral discussions and some Canadian apparel manufacturers saw gains from access to the larger U.S. market. But textile and apparel manufacturers on both sides of the border now appear unenthusiastic about liberalization. They have both waged long campaigns to limit imports, and are skeptical of and have opposed liberalization efforts. The small Canadian home market does not generate much excitement with the U.S. producers and, all in all, both industries prefer a cocoon of protection.[17]

On September 10, 1984, the Canadian Textile and Clothing Board released an assessment of the impact of a sectoral accord on Canadian producers. The report noted that the Canadian industries would be disadvantaged by a loss of tariff protection, and that the process of adjustment and rationalization would eliminate Canadian jobs (particularly for subsidiaries of U.S. companies and for licensees).[18] In addition, the report stated that, if a sectoral agreement were to be concluded, Canadian producers would want to phase in tariff reductions over a longer period for goods travelling north than for goods travelling south.

Steel

Prospects for a steel agreement are mixed at best. U.S. carbon steel producers oppose liberalization. Since 1969, the U.S. carbon steel industry has expended enormous effort in litigation and lobbying to create a system of quantitative restraints on imports of foreign steel. The industry's efforts have enjoyed considerable success, most recently in President Reagan's September 1984 decision to seek voluntary restraint agreements to limit U.S. imports of steel from Brazil, South Korea, Spain, and other countries. Liberalization with Canada would run counter to the U.S. industry's protective goals. For example, bilateral problems over cement and steel restrictions in the U.S. Surface Transportation Association Act of 1982 were resolved, with renewed access for Canada, only after difficult negotiations and retaliatory rhetoric.

The U.S. specialty steel industry[19] has a shorter history of seeking protection against imports and might be more amenable to bilateral liberalization. Two-way trade in specialty steel is modest, only about Cdn$45 million annually, with the United States recording a large surplus.[20] Dumping of specialty steel by non-North American producers is seen as a widespread problem. However, the U.S. "escape clause" (Section 201 of the Trade Act of 1974), rather than the anti-dumping laws, was used to provide protection against injurious imports. Since U.S. quantitative restrictions were applied on a global basis, Canada was also penalized, even though its products were not unfairly priced. Canada responded with punitive duties on U.S. exports of flat-rolled stainless steel.

U.S. makers of fabricated structural steel favour liberalization. By contrast, the U.S. ferro-alloys industry, which unsuccessfully sought protection under the national security provisions of Section 232 of the Trade Expansion Act of 1962,[21] would oppose tariff reductions. On another front, Canada temporarily lost access to defence sales because of Congressional Buy America riders attached to appropriations bills. In the end, however, a Canadian waiver was negotiated.[22]

The ingredients for a sectoral agreement may exist in specialty steel. Both industries wish to end the bad atmosphere caused by protectionist pressures. Raw materials are freely available to both industries, and the industries share the same capital markets, unions, and customers. They also face the same threat from offshore products, which are said to be unfairly priced.

Agricultural Equipment and Chemicals

In 1944, the United States and Canada agreed on duty-free trade in agricultural machinery. That arrangement worked well, if quietly, for some forty years. Recently, there has been some fraying at the edges. The U.S. customs procedure for duty-free treatment of "dual use" items (such as separators) requires end-user certification for a period of years after the item is sold. Meanwhile, Canada has gradually classified many imports of parts by their constituent materials (iron, aluminum, etc.), which are subject to duty. This is an area where a balanced sectoral negotiation looks feasible.

In addition, pesticides and herbicides have been added to the negotiations in this sector. The interest of producers in this aspect of negotiations is less clear.

Summary and Overview

U.S. industry harbours a general belief that trade liberalization is "the right thing to do." As one trade association stated when asked for general comments on Canada–U.S. trade liberalization, "Let's get on with it!" At the same time, individual companies and trade associations can be counted on to lobby the Congress and the Administration (using the sector advisory process established in the 1974 Trade Act) only in direct proportion to the stakes at risk. Sometimes there is a single company (e.g., Avon in cosmetics) or a select group of companies that is most interested in promoting talks. Occasionally, a trade association official will take a leadership role. For most of the sectors on the present agenda, however, we see little enthusiasm from companies or officials, and in many sectors we see active opposition to meaningful negotiations.

We originally thought that U.S. unions might favour negotiations with traditional trade partners, such as Canada, as a strategy to "bob and weave" around the day of reckoning with developing countries over jobs in traditional sectors. On the contrary, some union officials greeted our inquiry with derision and saw more liberal Canada–U.S. trade as "irrelevant" to the magnitude of the crisis facing U.S. industry. On the other hand, unions in the service and high technology fields might take a more favourable attitude toward liberalization. Thus far, however, services trade and high technology products are not prominent on the sectoral agenda.

Countering a general disposition to liberalize is the belief held by most U.S. observers that Canada has more to gain from trade liberalization than has the United States. The argument runs as follows: without assured access to the U.S. market, Canadian industries will not so easily enjoy the economies of scale necessary to remain competitive in world markets. By contrast, if the Canadian home market were freely open to the United States, the incremental market access for U.S. firms would be modest. This sort of reasoning quickly translates into an insistence that hard calculations show a mutual benefit from liberalization. Unless both sides realize approximately the same gains, U.S. interest quickly fades.

Against this background, the sectoral approach faces three obstacles as a recipe for bilateral liberalization. First, there is history. The sector-by-sector approach has a doubtful track record. While the Auto Pact was successful, this success can be attributed to the special circumstance of three giant U.S. auto firms operating on both sides of the border. Canadian efforts to promote the sectoral approach during the Tokyo Round in forest products and nonferrous metals failed. The sector approach is not bold enough or big enough to excite enthusiasm or capture imaginations in the United States.

Second, only in a few sectors can a balanced package be assembled that appears attractive to both U.S. and Canadian producers. As of 1984, only agricultural equipment seems a ready candidate for a self-balanced package.[23] Other sectors that might, with more exploration, yield self-balanced packages seem limited to petrochemicals, specialty steel, cosmetics, hardwood plywood, and informatics. It is likely, however, that if the sectoral process remains active, other products will surface as candidates for bilateral agreements.

Third, the political enthusiasm for broadening the sectoral approach by trading concessions across sectors seems no match for the self-interested opposition of the losing sectors. Thus, at the end of the day, a sectoral approach, if pursued, would probably lead only to narrow agreements covering a limited amount of trade.

Liberalization along Functional Lines: Possible Topics

The inherent difficulties with a sectoral approach lead naturally to speculation about other recipes for bilateral liberalization. A few of these deserve mention.

Cutting Tariffs across the Board

One possibility is to cut tariffs, on a bilateral basis, over a relatively short period, say ten years.[24] The United States would probably be enthusiastic about this approach. It would sweep away many of the narrow objections that could be raised by losing sectors. To be sure, any broad-based tariff-cutting formula would invite a long list of exceptions. Yet, in the end, more liberalization would result from "starting at the top" with a broad tariff-cutting formula than from "starting at the bottom" with individual sector negotiations. However, an across-the-board tariff-cutting approach that seemed to have as its logical destination a free trade area could easily antagonize Canadian nationalists.

Limiting Contingent Protection

An area of serious concern to Canada is contingent protection. Anti-dumping, countervailing, and escape clause actions often involve Canada. They are generally believed to chill trade, whether or not relief is eventually granted. Canada feels particularly susceptible to a chilling effect.

In practice, Canadian products have often been excluded from U.S. contingent protection. This was true of the textile, auto, and steel initiatives (though Canada was not entirely excluded from specialty steel relief). However, some Canadian producers would like more formal assurances. Several types of bilateral accords in the area of contingent protection can be contemplated. Some examples follow.

Anti-dumping and Countervailing Duties The injury test could be reformed so that Canadian goods would not be cumulated with the products of other countries for purposes of determining material injury. Canada could apply the same provision to U.S. goods. In cases involving cross-border trade, injury could be determined by a joint commission, or, as a way of avoiding any chilling effect, the United States and Canada might exempt each other's exports from *preliminary* anti-dumping and countervailing duties.

Other possibilities can be imagined. One U.S. Administration official pointed out that the whole apparatus of anti-dumping duties makes little sense if trade is free to move in both directions, unimpeded by tariffs or

other border restrictions. However, we found little inclination, particularly in the Congress, to "tamper" with the countervailing duty and anti-dumping duty laws to accommodate Canada. A common response was, "If trade is unfair, it ought to be stopped!"

Escape Clause A modest Canada–U.S. agreement was signed in February 1984, at the time the sectoral work program was adopted, to provide for advance notification in escape clause proceedings.[25] This accord borrows much from the GATT reforms that have been discussed but not adopted. The agreement provides for advance notice of at least 30 days before restrictions are imposed, consultations on the minimization of adverse impacts, and a declaration that short-term tariff relief is preferable to quantitative restraints. Certain compensation provisions are also included.

More could be done in the escape clause area on a bilateral basis. For example, the United States could agree to exclude Canadian exports from escape clause relief, unless exports from Canada were, by themselves, the substantial cause of injury. Canada could apply the same approach, on a reciprocal basis, to the United States. We found a limited degree of enthusiasm for these ideas.

Government Procurement

As the review of urban mass transit indicated, powerful interests have built up behind restrictive government procurement practices at the federal level. This is true of power generating equipment and defence goods, as well as subway cars and buses. "Buy national" practices have crept into use at the state and provincial level as well as at the federal level. The GATT International Agreement on Government Procurement signed during the Tokyo Round does not appear to seriously discipline national procurement restrictions.[26]

In the present atmosphere of opinion, no U.S. Administration will challenge state Buy America laws. Meanwhile, Canadian provinces routinely discriminate in their procurement against goods from other provinces. In the absence of an effective commerce clause, there is not even a common national market within Canada for certain products. Thus, while a bilateral accord on government procurement would be highly desirable, perhaps as an amendment to the GATT procurement code, it stands practically no chance of realization.

On the other hand, about half the congressmen contacted in this study supported in principle a preferential bilateral arrangement that would exempt Canadian exports from Buy America requirements. Of course all but one who favoured this would also require that it be reciprocal. Among those contacted in the Administration, there was apparently wide support for exemptions for Canada from federal Buy America

procurement requirements, although conditioned by the requirement that Canada offer a reciprocal exemption to the United States. However, discussions with Administration officials revealed little expectation that a reciprocal relaxation of government procurement restrictions could in fact be negotiated.

A majority of the U.S. trade associations that were canvassed also favour a bilateral arrangement to exempt Canada from Buy America provisions. However, the opposition was centred in some of those sectors that most benefit from Buy America provisions. The associations were unanimous that any exemption had to be reciprocated by Canada. There was a split over whether a supplementary bilateral agreement to the GATT government procurement code should be negotiated for products principally purchased by government entities. Finally, one respondent suggested a solution to the procurement issue as follows: "Canada and the U.S. share a commonality of interests that should be expanded. National programs such as Buy America and Buy Canada should be changed to Buy North America."

U.S. Congressional and Administration Roles in Trade Liberalization

Congress

In the wake of the National Energy Program (NEP) and pent-up frustrations over the Foreign Investment Review Agency (FIRA), Canadian commercial policies were severely criticized in Congress. In the years 1981–82, any move construed as beneficial to Canada, even if also beneficial to the United States, had small chance for success. In 1984 things are different.

By 1983, congressional hostility toward Canada largely disappeared, partly because of policy changes announced by the government of Pierre Trudeau. As evidence of the new mood, Congress waived Buy America for Canadian cement, and Canada was granted an exemption by the U.S. Department of Defense from a Buy America restriction on forgings. In an effort to depoliticize commercial disputes, Senator George Mitchell (Democrat-Maine) introduced S. 2228 in January 1984[27] to authorize the President to establish a joint commission to resolve trade and economic issues between Canada and the United States. Efforts to attach this legislation to the Trade and Tariff Act of 1984 failed, mainly on the question of bureaucratic turf between the proposed commission and the U.S. Trade Representative (USTR).

In this improved atmosphere, it is not surprising that Canadian issues have once again slipped into obscurity on Capitol Hill. The interest of the Congress in foreign affairs often tracks the daily headlines, and Canadian issues are usually discussed on the back pages. Commercial relations with Mexico receive more attention than do commercial relations

with Canada, even though U.S. trade with Mexico is much smaller.

On the other hand, trade proposals need only have the support of a few key members, the leaders on the trade subcommittees of the Senate Finance Committee and the House Ways and Means Committee, to move forward. Indeed, the Senate Finance Committee, under the leadership of Chairman Robert Dole (Republican-Kansas), spearheaded the authorizing legislation to permit the President to negotiate free trade agreements with Israel, Canada, and other countries.

In recent House hearings on the proposed free trade accord with Israel, the issue of negotiations with Canada was often raised. The hearings underscored two important points. First, the nature of the proposed negotiations with Canada for which the Administration sought and received authority in the Trade and Tariff Act of 1984 is not widely understood on Capitol Hill. The implications of sectoral accords as opposed to a free trade agreement have not been extensively considered by members of Congress. Many members who might reflexively favour the idea of a trade accord with Canada will find it more difficult to support sectoral accords in the face of constituent opposition. Should a constituent oppose any particular sectoral initiative, a member could become an instant opponent (even if not an instant expert) and a tenacious warrior. If an initiative with Canada enters the legislative pipeline, it could emerge a very different bill, reflecting parochial constituent concerns ranging from trucking regulations to the raspberry trade. Indeed, the 1984 Trade and Tariff Act includes a "mirror" provision denying a tax deduction for foreign broadcast advertising by U.S. businesses if the broadcaster is located in a country that denies a tax deduction for advertising placed with U.S. broadcasters. This provision is aimed at the Canadian tax action taken in 1976 and reflects the retaliatory effort of the damaged U.S. border broadcasters.

Apart from narrow constituent concerns, the atmosphere in Congress now reflects deep concern about the U.S. trade position. This is hardly surprising given the massive current account deficits and the high value of the U.S. dollar. The attitude of the Congress toward all trade proposals is now one of reciprocity: any concessions on access to the U.S. market should be matched in full. Temporarily gone are the days when Congress would accede to giving more than the United States gained on the assumption that the United States could make up through enhanced world prosperity what it lost in the particular negotiation.

The emotions of the Congress have been encouraged by U.S. trade unions which are hostile toward trade liberalization affecting manufacturing jobs, no matter what the label and no matter who the sponsor. The unions have opposed all authorizing legislation, be it for Canada or for Israel, and will continue to do so into the foreseeable future.

Moreover, even those few members who have taken the time to

understand what Canada has proposed have concerns about the chances for success. Chairman Sam Gibbons was opposed to placing specific authority to negotiate with Canada in the 1984 Act because he doubted the Canadian political commitment to the sectoral proposal:

> Let me just talk about the Canadian request that you make, because over the years in the auspices of the United States interparliamentary group I have talked with the Canadians about this matter. I learned years ago that it was far better from the Canadian point of view in their own domestic politics if they brought up the issue rather than me bringing up the issue. . . . So I have let it be known to the Canadian authorities that they are the ones that we dance with and not us making the proposal to dance. So I would prefer not to put any other countries in this bill at this time.[28]

Nevertheless, thanks to the Senate position and Administration efforts, the 1984 trade legislation included authority for the U.S. Trade Representative to "dance" with any country, including Canada, either on a sectoral basis or across the board, even though Canada was not specifically mentioned in the legislation.

The 1984 legislation will permit negotiations to use the same "fast track" pattern that eased congressional adoption of the results of the Tokyo Round of the General Agreement on Tariffs and Trade (GATT). Meanwhile, the President retains authority under Section 102 of the 1974 Trade Act to negotiate nontariff trade barriers, again with "fast track" legislation.

The fast track procedures were originally set out in Sections 102 and 151 of the 1974 Trade Act. They were modified in only minor respects by the Trade and Tariff Act of 1984. Section 102 of the 1974 Act requires the President to consult closely with the relevant congressional committees, primarily the House Ways and Means Committee and the Senate Finance Committee, before entering into a trade agreement.

Before concluding the agreement, and submitting the implementing legislation to the Congress under Section 102, the economic impact of the agreement must be reviewed by the International Trade Commission, and private sector advisory committees for the relevant areas must be given an opportunity to comment. On September 10, 1984, Ambassador William Brock, the USTR, requested the International Trade Commission to complete a study within six months on the economic impact of free trade in various sectors with Canada. In a very preliminary and tentative way, this request has started the process on the U.S. side.

The President must formally notify the Congress 90 days in advance both of signing any trade agreement and of submitting legislation for consideration by the Congress. Under Section 151 of the 1974 Trade Act, the fast track rules of Congress provide for immediate referral of the proposed legislation to the appropriate committees. No amendments are permitted to be offered in Congress, and debate is limited to 20 hours in

each chamber. A vote on the measure is required no later than 60 days after the President formally notifies Congress. This plan of advance consultation and fast track legislation is designed to facilitate congressional ratification of trade agreements.

Nevertheless, Congress will not act as a rubber stamp. In judging trade policy, the Congress has shown renewed interest in the concept of reciprocity. Congressional attitudes toward bilateral liberalization with Canada will be heavily influenced by congressional judgment as to whether the overall package confers equivalent benefits on both countries. In addition, influential legislators will insist that their constituent concerns are answered in any sectoral agreements.

The Administration

After an initial period of somnolence, the U.S. Administration, led by USTR Brock, gave a high place on its trade agenda to the Canadian sectoral proposals. This priority reflects at least three considerations. First, presidential candidate Ronald Reagan, in 1980, advocated a North American accord. The time was not ripe during 1980–82, but the idea was not forgotten.[29] Second, the Reagan Administration, nominally committed to free trade, found itself in the uncomfortable position of presiding over a growing wave of protectionist measures affecting sugar, textiles, automobiles, and steel. Third, the multilateral side of the commercial agenda was relatively uncrowded.

Thus, partly by default, the sectoral accords with Canada, together with a proposed free trade agreement with Israel, became high priority items in 1984.[30] USTR Brock lobbied the Congress, with considerable success, to obtain fast track negotiating authority, and stated that the United States is prepared to match the Canadians "step-for-step."

The attitude of the Administration toward the sectoral initiative is largely determined by the USTR. Other agencies, such as Commerce, Treasury, State, and Agriculture, have an impact, but trade policy making now resides with the USTR. The main themes that can be gleaned from the USTR concerning the sectoral initiative are:

1. Pursue the initiative, but only with Canada in a leadership role. This approach is known as the step-by-step approach, and Canada must move first.
2. Defer discussion of the GATT implications of any sectoral initiative. Why stir the waters if nothing develops?
3. Use the bilateral initiatives with Canada, Israel and with ASEAN, etc., as a fallback form of liberalization in the event that the GATT stumbles. The corollary of this theme is that, if negotiations go forward on a multilateral front, talks with Canada may languish.

Many observers believe that an important U.S. motivation in discussing

sectoral liberalization with Canada, and free trade arrangements with Israel and the ASEAN countries, is to create bargaining leverage vis-à-vis third countries. According to this view, bilateral negotiations on an "a la carte" basis (to use Brock's phrase) would prompt renewed interest in multilateral talks by Europe and Japan.

Some interest has recently been shown. In a February 1984 meeting of the trade ministers of the United States, Japan, the European Community and Canada, agreement on another trade round seemed inevitable. A decision to launch a new round, the Reagan round, might occur at the May 1985 Bonn Summit meeting. Japanese Prime Minister Nakasone called for such a trade round in November 1983, and President Reagan echoed this call in his January 1984 State of the Union address and in his September 1984 speech to the International Monetary Fund (IMF) and the World Bank. A new multilateral trade negotiation was again urged at the OECD ministerial meeting in May 1984, and the London summit in June 1984. In the meantime, the United States would like to use negotiations with Canada to supplement its efforts to move its other trade objectives forward. Canada, too, would like to see progress on a multilateral agenda.

One U.S. official neatly reconciles the apparently divergent goals of bilateral and multilateral initiatives: "There is a place for bilateralism generally, *if and only if* the approach is crafted in such a way that (1) results are trade-creating rather than trade-diverting, and (2) a reversion to MFN at some point down the road can be built into the system."

If a multilateral round makes progress, any results from Canada–U.S. talks are likely to be folded into the grand design. In the absence of progress, mutual interest in bilateral solutions is likely to grow.

The Views of U.S. Trade Unions, Trade Associations and Third Parties

U.S. Trade Unions

During the 98th Congress, the U.S. labour movement continued to move in a protectionist direction, with a long agenda of legislative initiatives designed to preserve U.S. jobs. Consistent with this approach, organized labour in the United States has opposed trade liberalization, including the Caribbean Basin Initiative and a free trade agreement with Israel. Organized labour has instead promoted protectionist measures, including the domestic-content auto bill, reciprocity legislation, and Buy America provisions.

While the general reaction of organized labour to Canadian liberalization will likely be negative, individual unions may view liberalization as in their favour. Industries with an international union may well support bilateral liberalization. Other industries have noted that liberalization

will not address the huge U.S. merchandise trade deficit. For example, consider the following excerpt from a returned questionnaire:

> At a time when the overall U.S. merchandise trade deficit reached $69 billion in 1983 and our bilateral deficit with Canada exceeded $14 billion, actions should be taken to redress this imbalance. Negotiations that seek to further liberalize trade between the U.S. and Canada either on a sectoral basis, or across the board, do not address this basic issue. Problems and inequities that exist in U.S.– Canadian economic relationships should be addressed directly. Reductions in Canadian barriers to U.S. services and investment should not be secured at the expense of U.S. manufacturing industries. As demonstrated by the composition of our current trade deficit with Canada, manufacturing workers in the U.S. are already bearing a significant burden. Even though wage rates in Canada are now roughly equivalent to U.S. wages, the fact that the Canadian dollar is currently worth [U.S.] $.79 confers a significant advantage on Canadian exports. Free trade agreements do not solve this disparity and would, in fact, make matters worse.

Generally, U.S. unions in opposition to a free trade agreement cited the danger of losing more U.S. jobs, given the low value of the Canadian dollar. One union statement explained its opposition to a free trade agreement as follows:

> We believe that the establishment of the free trade area with Canada or with any other country for that matter would place an additional burden on American workers who are already paying the price with unemployment and lost earnings for trade and economic policies that have resulted in decreasing exports and large increases in imports.
>
> A bilateral agreement of this kind would contradict the carefully negotiated, theoretically balanced tariff cuts agreed to in the Tokyo Round of the multilateral trade negotiations that are currently being put in place.
>
> Since an agreement of this type must cover substantially all trade, protection for acknowledged import-sensitive industries would not be permitted. Buy American laws would also be sacrificed. Finally, the establishment of such an agreement would make future requests from other countries for free trade areas much more difficult to refuse. The U.S. market is already the most open in the world and elimination of the minimal protections now in place will only accelerate the weakening of our industrial base.

U.S. Trade Associations

We found that most U.S.trade associations favoured a general reduction of tariffs in Canada–U.S. trade. A few noted that tariffs were not an issue for their members, reflecting the reality of low tariffs after the Tokyo Round. Furthermore, most associations would favour a reduction of tariffs on a reciprocal bilateral basis. There seemed to be little opposition to tariff reductions. Exceptions were ferro-alloys and one on softwood plywood (unless there was an agreement on standards harmonization).

Most trade associations also favoured sectoral free trade arrangements, although several noted that this was a second-best approach after a general free trade agreement, an approach endorsed by all but one of the associations. The only industry that objected to a sector arrangement was carbon steel. One trade association observer of commercial relations had the following criticism of the sectoral approach: "I do not think that tariff elimination or harmonization on a sectoral basis is likely to provide a viable approach, i.e., government procurement, investment review procedures under FIRA, etc., would have to be part of the sectoral package in most instances."

Curiously, the respondents were evenly split as to whether obligations on rights of establishment had to be included in a sectoral accord. By three to one the responses said that obligations on natural resource price regulation did not need to be included.

There seemed to be a consensus that a bilateral accord on the Auto Pact model was the preferred way to proceed. A slight majority of the associations would also apparently endorse negotiations on a plurilateral or conditional most-favoured-nation basis, but there was also strong opposition to each alternative. Concern was also expressed that tariff concessions intended to apply bilaterally might, nevertheless, be construed as applying on an MFN basis by the GATT.

Third Parties

While over 70 percent of Canadian trade is with the United States, the comparable figure for the United States is only 20 percent. The United States correspondingly has more to lose from trade partners that feel threatened by bilateral Canada–U.S. liberalization. The European Community and Japan, for example, could seek compensation under the GATT or oppose GATT waivers for any Canada–U.S. agreements that fell short of an overall free trade area. Opposition might be less formal, but commercial retaliation could take other forms. Mexico has no recourse to GATT, since Mexico is not a contracting party, but Mexico has a supportive constituency in the United States.[31]

Overall, however, it appears that no major U.S. trade partner has the leverage (even if it had the motive) to sabotage bilateral liberalization efforts. Most U.S. industry groups do not see third party opposition as a significant factor in whether bilateral efforts should be pursued. Government and private industry officials do not regard GATT obligations as a barrier to liberalization efforts. The European Free Trade Association (EFTA) and the EC are working to enlarge the European trading area, and Japanese trade practices are widely viewed as departing from the spirit of GATT. According to the prevailing view, the GATT system can accommodate a great deal of irregularity.

Conclusions and Recommendations

The results of this study leave the authors unimpressed with the prospects of liberalization of trade on a sectoral basis. If Canadian sectoral initiatives are simply intended to remedy very specific and modest trade problems and to thwart emerging protectionist actions by the United States, then the approach could possibly achieve its limited goals. However, a sectoral approach seems unlikely to accomplish the underlying Canadian objective of securing access to the U.S. market for a wide range of traditional and emerging industries. In the United States, meanwhile, sectoral initiatives do not evoke much enthusiasm on either economic or political grounds. To a large extent, the United States is entertaining Canadian initiatives as a means of attracting the notice of Japan and the European Community, and because the trade liberalization agenda is uncrowded.

What alternatives can be found to a sectoral initiative? One approach is to seek trade-offs across sectors. In an evolutionary program, this might be attempted after a few self-balanced successes within individual sectors. From a political perspective, however, it is difficult to strike a bargain that, for example, explicitly concedes the U.S. carbon steel market in exchange for the Canadian home furniture market.

Initially, we thought that liberalization might be pursued in nontariff areas: contingent protection (anti-dumping duties, countervailing duties, the escape clause) and government procurement. To our disappointment, while the sectoral initiative evokes only mild enthusiasm, liberalization along functional lines attracts outright hostility. The affinity for the "level playing field" and stopping "unfair trade" seems firmly rooted in the United States, particularly in the Congress. In the context of the U.S.–Israel free trade agreement, where potential trade volumes are much smaller, Chairman Sam Gibbons repeatedly expressed his commitment to maintain the unrestricted availability of the unfair trade remedy laws.

By a process of elimination, we conclude that the prospects for Canada–U.S. trade liberalization are best if the design is bold. If bilateral initiatives are to succeed, proposals should be offered that transcend the particular interests of individual industries. Those proposals are best framed in the larger context of a free trade area.[32] A free trade area excites the public imagination far more than sectoral or functional proposals.[33] It offers ample fare for television talk shows and Sunday supplements.

To be sure, trade policy experts recognize that the implementation of free trade would require long transition periods, significant exceptions, and, in many cases, an ongoing review of investment decisions. Thus, the immediate liberalization might be no greater than an ambitious sectoral program could achieve. Yet the architecture of a free trade area,

starting with a large design, and then completing it stone by stone, is far more compelling than the process of adding one stone to another with no explicit vision of the end result.[34]

Notes

This study was completed in December 1984.

1. For a review of commercial negotiations see S.S.Reisman, "The Issue of Free Trade," in *U.S.–Canadian Economic Relations: Next Steps?* edited by Edward Fried and Philip Trezise (Washington, D.C.: Brookings Institution, 1984).
2. The term "reciprocity" broadly refers to equivalent market access between the United States and its trade partners, in terms of international investment, trade in services, and trade in manufactures.
3. See, e.g., Stuart Auerbach, "U.S. Going Its Own Way On Trade", *The Washington Post*, July 29, 1984, art. GI.
4. For a discussion of the trade-related performance requirements issue see, C.G.B. Fontheim and R.M. Gudbaw, "Trade-Related Performance Requirements under the GATT-MTN 'System' and U.S. Law," *Law and Policy in International Business* 14 (1)(1982): pp. 129–80. For a discussion of general U.S. international investment policy see remarks of Richard J. Smith, Deputy Assistant Secretary of State for International Finance and Development, "U.S. International Investment Policy: A Success Story," Washington, D.C., October 1983.
5. The new Progressive Conservative government of Brian Mulroney has pledged to assure a friendlier attitude towards foreign investment. FIRA will be renamed Investment Canada and further modest administrative reforms will be made. These changes reflect both a philosophical difference with the previous Liberal Government and a pragmatic recognition that Canadian investment flows have often been negative in recent years. See Leo Ryan, "Canada Moves to Ease Investment," *The Journal of Commerce*, November 16, 1984.
6. See Canada, Department of External Affairs, *Canadian Trade Policy for the 1980s* (Ottawa: Minister of Supply and Services Canada, 1983).
7. See Hyman Solomon, "Trade Thinking Recognizes U.S. Reality," *The Financial Post*, October 22, 1983, and notes for an address by the Honourable George Regan, Minister of State (International Trade) to the National Foreign Trade Council, December 5, 1983.
8. 48 *Federal Register* 6569 (February 14, 1983).
9. For a discussion of the negotiations on petrochemicals at the Tokyo Round, see Rodney de C. Grey, *Trade Policy in the 1980s: An Agenda for U.S.–Canadian Relations*, Policy Commentary No.3 (Montreal: C.D. Howe Institute, 1981) at 30–37.
10. The Canadian private sector *Petrochemical Industry Task Force Report* completed in February 1984 at the request of the ministers of regional industrial expansion and energy, mines and resources, urged that the government proceed with bilateral negotiations, see pp. 28–29.
11. For a general discussion of the issues raised in the petrochemical sector see Hufbauer and Samet, "The Future of Canadian–U.S. Free Trade: The Sector Approach," prepared for the Association for Canadian Studies in the United States (October 1983).
12. For an analysis of the U.S. and Canadian industries, see U.S. International Trade Commission, "Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry," USITC Pub. 1543, June 1984.
13. See, e.g., Hearings before the Livestock, Dairy and Poultry Subcommittee, House Committee on Agriculture, "Review of the Impact of Canadian Trade on U.S. Livestock Protection," May 23, 1984.
14. H.R. 5206, introduced by Representative Berkley Bedell of Iowa, would require an added duty to offset any subsidy calculated to exist.
15. See Rodney de C. Grey, *Traded Computer Services: An Analysis of a Proposal for Canada/U.S.A. Agreement*, report prepared for The Royal Bank of Canada, 1983.

16. Jeffrey J. Schott, "Services and the World Trading System," Statement before the Subcommittee on Economic Stabilization, House Committee on Banking, Finance and Urban Affairs, 98th Cong., 2d Sess., June 14, 1984. The Congress has considered numerous bills to establish a legal framework to deal with foreign country restrictions on trade in services and high technology products. Among the legislative changes included in the *Trade and Tariff Act* of 1984 are negotiating authority for the President to reduce such barriers on a multilateral or bilateral basis and authorization for the President to retaliate for such restrictions under section 301 of the *Trade Act* of 1974. The 1984 Act also directs the Department of Commerce to provide an annual report on barriers to trade in services and to international direct investment.
17. The Canadian textile industry shows no enthusiasm for liberalization; see Wayne Gooding, "Task Force Waits for Tory Textile Strategy," *The Financial Post*, November 3, 1984.
18. See Canada, Textile and Clothing Board, *Report on a Study of the Impact of Potential Free Trade in Textiles and Clothing Between Canada and the United States* (Ottawa: The Board, 1984).
19. Speciality steels are high alloy steels for special uses such as tool and die and stainless products. These materials sell at approximately 15 times the cost per ton of carbon steel.
20. "A Bid to Expand Free Trade With the U.S.," *Business Week*, January 16, 1984, pp. 42, 44.
21. 19 U.S.C. 1862. See 49 Federal Register 21391 (May 21, 1984). The background of the decision is discussed in *U.S. Import Weekly*, May 23, 1984, p. 1032.
22. John Urquhart, "Canada Expects to Get Exemption From U.S. on Curbs for Forgings," *The Wall Street Journal*, May 24, 1984.
23. See, e.g., Helen Ericson, "U.S.–Canada Trade Talks Progress Slowly," *The Journal of Commerce*, November 23, 1984.
24. Canadian tariffs that will remain over 5 percent with the completion of the Tokyo Round reductions in 1987, include those on: clothing (24.4%); footwear (22.3%), primary textiles (19.1%); furniture (14.3%), plastics (13.4%), drugs (9.0%), synthetic resins, (8.9%), chemicals (8.4%), musical instruments (8.3%), nonelectrical machinery (8.1%), earthenware/stoneware (8.0%), electrical apparatus (7.9%), paper (7.8%) rubber products (7.6%), iron and steel (7.1%), photographic equipment (7.0%), wood products (7.0%), and consumer electronics (6.7%). Source: Canadian Federal Department of Finance, reprinted in Catherine Harris, "Trade Barriers all over the Map," *The Financial Post*, November 10, 1984, p. 10. U.S. tariffs are not generally regarded as a problem by Canadian exporters, who express more concern about nontariff issues such as countervailing duties and escape clause actions. According to the Canadian Manufacturers Association, U.S. sector tariffs that will remain over 10 percent in 1987 include: clothing, processed foods, optical goods, railway equipment and rolling stock, electrical equipment and machinery, metal products, chemicals, chemical products, and petrochemical feedstocks. Ibid.
25. *National Journal*, February 25, 1984, p. 384.
26. A recent U.S. General Accounting Office study concludes that the Procurement Agreement has had less commercial value than anticipated. See U.S. General Accounting Office, *The International Agreement on Government Procurement: An Assessment of its Commercial Value and U.S. Government Implementation*, July 16, 1984.
27. S. 2228 would have added to section 612 of the Trade Act of 1974 (19 U.S.C. 2486) the following:
The President is authorized and requested to seek through an agreement the establishment of a joint commission to resolve trade and other economic issues between the United States and Canada. All disputes concerning such issues should be referred to the joint commission for fact finding and resolution through arbitration in a manner similar to the procedure established by the Convention Concerning the Boundary Waters Between the United States and Canada (36 Stat. 2448) [The International Joint Commission].

28. "Proposed United States–Israel Free Trade Area," Hearings before the Subcommittee on Trade, Committee on Ways and Means, House of Representatives, 98th Cong., 2d Sess., May 22, June 13 and 14, 1984 at p. 39.

29. In 1981 the U.S. government completed a comprehensive, albeit unheralded, review of North American liberalization options, and concluded that the timing was not appropriate for a free trade agreement with Canada. See "North American Trade Agreements," a study mandated in Section 1104 of the *Trade Agreements Act of 1979*, July 26, 1981.

30. The sensitivity of the Canadian initiative is underscored by the sudden (and unforeseen) reticence on the part of key U.S. Administration officials to respond to the questionnaire sent out by these authors. The word came down that responses should not be given, and only a handful of the 49 questionnaires sent to Administration officials were returned.

31. Mexico is even more dependent on the U.S. market than is Canada: 75 percent of Mexico's exports are to the United States. See William A. Orme, Jr., "Mexican Leader to Meet With Canada's Trudeau," *The Journal of Commerce*, May 7, 1984.

32. The free trade agreement proposal has been the subject of study in Canada. See, e.g, The Standing Senate Committee on Foreign Affairs, *Canada–United States Relations*, volume III, *Canada's Trade Relations with the United States* (Ottawa: Minister of Supply and Services Canada, 1982).

33. Donald Macdonald, Chairman of the Royal Commission on the Economic Union and Development Prospects for Canada, recently endorsed free trade and exhorted Canadians to make a "leap of faith" in embracing the concept. See *Maclean's*, December 3, 1984, p. 48.

34. One way to neutralize the political baggage associated with the term "free trade" in Canada is to select a different label. For example, the Business Council on National Issues has advocated that Canada conclude a "trade enhancement" agreement with the United States. See Giles Gherson, "No Rush to U.S. Connection," *The Financial Post*, October 3, 1984.

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Canada and the International Political Economy

The Politics of Canada's Economic Relationship with the United States

DENIS STAIRS and GILBERT R. WINHAM, Research Coordinators

This is the second of three volumes dealing with **Canada and the International Political Economy** (see list in back of book), included in the Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada.

None of Canada's external economic connections has aroused more controversy than its relationship with the United States. Both a political and an economic issue, that relationship has implications for Canada's economic welfare, as well as for political autonomy at home and independence abroad. In these essays, proposals for Canada–United States free trade, economic nationalism and continental integration are examined from both political and economic viewpoints, and from both American and Canadian perspectives.

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